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Durham University Business School

**An Empirical Examination into the Social Reporting Practices
of Islamic Banks in Malaysia and Bahrain**

AMIRUL HAQEEEM ABD GHANI

PhD Thesis

**Submitted in Fulfilment of the Requirements for the Degree of Doctor of
Philosophy in Islamic Finance at Durham University**

May 2019

DECLARATION

None of the material contained in this thesis has previously been submitted for a degree in University of Durham or any other university except where due reference has been made in the text. None of the material contained in this thesis based on joint research. The content of this consist of the author's original individual contribution with appropriate recognition of any references being indicated throughout.

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AMIRUL HAQEEEM ABD GHANI

Date: 30th May 2019

Acknowledgement

In the name of God the most gracious and the most merciful.

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Abstract

Purpose- This study examines the social disclosure by Islamic banks in Malaysia and Bahrain. By viewing it through the lenses of the legitimacy and stakeholder perspective, the study explores the commitment of Islamic banks towards wider stakeholders in 7 dimensions (Shariah/Social Internal/Social External/Environmental/Shariah Governance/Governance/Ethics) and 20 themes. Known as the two most advanced countries with distinct models of Islamic banking, Malaysia and Bahrain are an ideal two-country sample to be explored. It is important to learn how Malaysia's moderate approach and Bahrain's conservative attitude may contribute to differences in their Shariah, Social, Environmental, Governance & Ethics (SEGE) disclosure. Furthermore, this thesis introduces the 'Islamic Accountability Theory Model' and 'SEGE Disclosure Framework' for Islamic banks to the literature to be further explored and enhanced.

Design/methodology/approach- The approach taken uses an in-depth 3-Stages content analysis (Volume Measurement/ Ordinary Index/ 3-Level Score) of 18 Malaysian and 16 Bahraini Islamic banks' annual reports for a period of 5 years (2010-2014). This '**triple method**' was made possible using the Microsoft Excel sheet (Ordinary Index), special design manual sheet (Quality Score & Volume) and Nvivo software (Recording Method & Analysis). Furthermore, the 3-level score was later estimated using the STATA software to further support the results in chapter 6 and test the relationship between the variables of interest (Religiosity & Regulatory quality) towards SEGE Quality disclosure.

Findings- The overall findings show an interesting differentiation between the two models of Islamic banking. The top 5 performing Islamic banks in disclosure quality were dominated by Malaysian Islamic banks. Furthermore, the top 10 performing Islamic banks ranking in disclosure movement from ordinary (index) to quality (3-level score) were much steadier in Malaysia while they were more unstable in Bahrain. In addition, religiosity and regulatory quality seem to have influenced SEGE disclosure. In short, the Islamic banks that operate in environments with supportive governing bodies, collaborative institutions, sustainable talent management systems and moderate values tend to perform comparatively better in their SEGE disclosure.

Practical Implication- This research may draw attention to regulators and non-governmental organisations to produce a set of SEGE disclosure standards for Islamic financial institutions. Moreover, the SEGE disclosure framework may be used as a part of training material for practitioners in the industry. Furthermore, this research might help managers, Board of Directors, and Shariah Supervisory Boards to have a greater view on the role of Islamic banks in social reporting initiatives.

Originality/value- The study fills gaps in Islamic accounting literature by having an in-depth examination of the Malaysian and Bahraini model of Islamic banking. It goes beyond previous literature in Islamic accounting literature by enhancing the method and suggesting a theoretical foundation and disclosure framework for the Islamic finance industry, particularly in Islamic banks.

Keywords: SEGE (Shariah, Social, Environment, Governance & Ethic), Social Reporting, Islamic Accounting, Legitimacy, Stakeholder, Islamic Accountability, Islamic Bank Disclosure Framework.

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List of Abbreviations

- ABBREVIATION 1 : ISLAMIC BANKS (ISB)
- ABBREVIATION 2 : SHARIAH, SOCIAL, ENVIRONMENT, GOVERNANCE, ETHIC (SEGE)
- ABBREVIATION 3 : ORGANISATION OF ISLAMIC COUNTRY (OIC)
- ABBREVIATION 4 : ISLAMIC DEVELOPMENT BANK (IDB)
- ABBREVIATION 5: ACCOUNTING AND AUDITING ORGANIZATION FOR ISLAMIC FINANCIAL INSTITUTIONS (AAOIFI)
- ABBREVIATION 6: ISLAMIC FINANCE SERVICES BOARD (IFSB)
- ABBREVIATION 7: GLOBAL REPORTING INITIATIVE (GRI)
- ABBREVIATION 8: ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)
- ABBREVIATION 9: SHARIAH ADVISORY COUNCIL (SAC)
- ABBREVIATION 10: ISLAMIC BANKING AND FINANCE INSTITUTE MALAYSIA (IBFIM)
- ABBREVIATION 11: INTERNATIONAL SHARIAH RESEARCH ACADEMY (ISRA)
- ABBREVIATION 12: INTERNATIONAL CENTRE FOR EDUCATION IN ISLAMIC FINANCE (INCEIF)
- ABBREVIATION 13: CENTRAL BANK OF MALAYSIA (BNM)

Chapter 1

(Introduction)

CHAPTER 1 INTRODUCTION

1.1. Preamble

Traditionally, the role of religion in finance and banking transaction has been central to religious conviction. For instance, the Abrahamic religions (Judaism, Christianity and Islam) have received more or less the same teachings and messages with regards to usury in their holy scriptures and books (Warde, 2010). In all the Abrahamic religions, only Islam associates itself with, and has embedded its name within, the banking system. Based on religious values, Islamic society has great expectations for Islamic banks to perform well in their social duties and ethical conduct (Kamla and Rammal, 2013, Haniffa and Hudaib, 2007, Belal et al., 2014). However, due to the nature of financial business, it is necessary to appraise the corporate values that most of the times are prone to a business and profit orientation which is not necessarily socially and ethically responsive.

Therefore, the emerging market for Islamic banking has made research into social reporting by Islamic banks interesting and has sparked the motivation for pursuing it. The expansion of the Islamic banking industry in the last twenty years has been remarkable (Mohd. Yusof and Bahlous, 2013) in terms of business growth. Moreover, the Islamic banking industry has proven its expansion with a growth rate within the double digits in the past 7 years, with an average of 16.02% according to DiVanna (2013). Parallel to Islamic banking business growth, the awareness on social expectation has also proliferated. Ramanathan (1976) argues that social reporting is as important as financial reporting; therefore, social reporting based on Islamic accounting values are supposed to be central to Islamic banks. This idea is supported by Lewis (2001) where he argues that accounting and accountability are central to Islam, where Muslims are accountable to God and the community in all aspects of their life, including banking. Therefore, the research for Islamic social reporting and its application need to be sustained and propelled further to keep the awareness growing.

Furthermore, Islamic banking is one small branch under the umbrella of Islamic teaching that has its roots in *muamalat* (commercial transactions and civil dealings between humans) and is governed by Islamic jurisprudence in dealing with its technicalities (Hassan and Lewis, 2007). The design of the modern Islamic banking system is a mix of western banking and the essence of Islamic jurisprudence, and this has been indicated by the translation by Demetriades and Tyser (1980) on the code of law in the business transactions of the last Ottoman Empire. This code of law provides a comprehensive law in the business transactions of sale, hire, transfer of debt, pledges, and trust and trusteeship based on the Hanafi¹ school of thought.

Particularly, looking at the various branches of the human activity that have a relationship with the Islamic economy, Islamic banking in the modern world was created mainly to avoid usurious business transactions which were prohibited by the Quran in the verse “ ‘...Trade is [just] like interest. But God permitted trade and forbidden interest...’ 2:275” (Ali, 2009). Based on this source of belief, modern Islamic banks emerged in the 1970s and have grown, until today, side by side with older conventional banks in countries such as Malaysia and Bahrain.

Therefore, it is clear that Islamic teachings cover all aspects of Muslim life as advocated by Lewis (2001), covering worship, commercial, civil, criminal, and familial activities among other things. Therefore, Islamic banking is one such organisation that has been established in the industry based on the above principle. Moreover, in relation to this thesis, the thesis is in accord with Aribi and Gao (2010) assumption that Islam is an important factor that should inspire social disclosure by Islamic banks.

In summary, the preamble section not only serves as the fundamental basis of the motivation and inspiration for the research but also provides important information in the understanding and calibrating between social reporting and Islamic banks.

¹ The Hanafi school of thought is one of the four main schools of thought in Islamic jurisprudence. The other three are the Maliki, Shafie, and Hanbali school of thought.

1.2. Research Aims

The research aim is to examine the social reporting practices by Islamic banks in Malaysia and Bahrain. This is by way of the Malaysian and Bahraini systems as a proxy model. This research will examine how and to what extent Islamic banks in these two models disclose social information to be utilised in signalling their accountability to society. Moreover, this will be accomplished through social disclosure evidence in the available official annual report documents between 2010 until 2014. Islamic banks should act in a manner which promotes sound social disclosure practices in order to establish societal belief in their system as the foundation of Islamic banks is tied closely with their religious positioning. The research thus attempts to explain the Shariah, Social, Environment, Governance and ethics (SEGE) disclosure framework for Islamic banks based on the legitimacy and stakeholder theories as a main theory and signalling, social norms and accountability theory as other supporting theories. Furthermore, the theories will be linked to research findings extracted from the empirical analysis. This study will provide literature with further extensions of social disclosure by Islamic banks in these two models.

1.3. Key Research Questions

The research questions below have been formulated in consideration of the above-mentioned research aim and objectives: -

- 1) What are the disclosure practices of the two models of Islamic banks, namely the Malaysian and Bahraini Model. How do their practices differ? Why?
- 2) Are there any differences in the **ordinary**² and **quality**³ disclosure of social reporting by Islamic banks in these two countries? Is it related to symbolic disclosure and surface legitimacy? Why?
- 3) Will the regulatory quality and religiosity influence social disclosure?

² Ordinary disclosure measure by the index. For a further discussion see chapter 5.

³ Quality disclosure measure by the 3 level score. For a further discussion see chapter 5.

- 4) Are there any differences between the individual bank's practices in ordinary and quality disclosure? Is it related to wider stakeholder involvement or is it just a means of legitimacy? Why?

1.4. Research Scope and Approach

The thesis takes the objectivist approach of philosophical assumption while adopting a realist position in ontology. Furthermore, it assumes the positivist position in epistemology and determinism concerning the assumption of human nature. The thesis investigates Malaysia and Bahrain as the target samples due to their rich and strong characteristics in operation and development history in the Islamic banking industry. The thesis employs a '3 stages' content analysis (Volume measurement/Ordinary index & 3-Level Score) to explore the SEGE disclosure in these two countries that represent the two models of Islamic banking through the lenses of *legitimacy*, *stakeholder*, and *signalling theory* with a hint of *social norms theory* and *Islamic accountability*.

1.5. Proposed Research Contribution to the body of Knowledge

This thesis' originality and contributions to the body of knowledge are constructed to the best of the author's knowledge based on a review of the literature as outlined below: -

- 1) The extension on information content '**quality**' by the innovations of '**three Level disclosure coding scheme**' that differentiate the disclosure commitment and *theories entrance*⁴ is inspired by the studies of Botosan (1997) and Beck et al. (2010).
- 2) The introduction of the '**SEGE Disclosure Framework for Islamic Banks**' to the literature.
- 3) The enhancement of the content analysis technique by having a '**3 Stages**' content analysis in one single study, which is the '**volume measurement, ordinary index and quality score**',

⁴ Theory entrance is the assumption in the 3 level disclosure where narrative disclosure signals legitimacy theory while (statistical/graphics/policy) disclosure may suggest stakeholder theory.

where normally only one of the techniques is employed at a time in one particular research or study.

- 4) The *harmonisation of themes and checklists* by Maali et al. (2006), Haniffa and Hudaib (2007) and Belal et al. (2014) with the relevant standards of the Global Reporting Initiative (GRI), Organisation for Economic Cooperation and Development (OECD), Equator Principle, Accounting and Auditing Organisation for Islamic Financial Institution (AAOIFI), and Islamic Financial Services Board (IFSB).
- 5) The *segregation of graphic and narrative* disclosure results into separate results so that Islamic banks can appreciate the use of graphics in disclosing social information.
- 6) The recognition of the disclosure performance by the Islamic bank's model on top of countries and individual banks.

The next section will describe the thesis structure and conclude chapter 1.

1.6. Thesis Structure

The thesis consists of four parts and seven main chapters with each chapter consisting of its own sections and sub-sections accordingly. It is recommended that the '**process flow**' located before each introduction of each chapters be read together for ease of understanding of the flow of a particular chapter.

Chapter 1 provides the introductory information of the thesis background along with the principal motivation behind the thesis. Furthermore, chapter one addresses the research objectives and the core research question followed by some brief, preliminary information of the methodology used by the thesis. Moreover, chapter one also describes the background of the thesis' main scope of study (Malaysia & Bahrain) and justifies the pursuit of the study by emphasising the thesis' contribution to the body of knowledge.

Chapter 2 describes the environment of the institutional and regulatory bodies and progress of the two countries in order to understand the framework and the work culture and commitment signalled by both countries' governments, regulators and Islamic bank professionals as well the society's socio-environment. These factors are important to be explored and explained in order understand the differences in Malaysia and Bahrain's Islamic banking industry. Moreover, this will also help in connecting the differences between the two countries in the findings chapters.

Chapter 3 provides a review of the literature pertinent to the research objectives and research questions, specifically Islamic social reporting as well as social reporting in general. The chapter traces the evolution of social reporting literature and its historical development in terms of theory applicability and the methods employed as well as the coverage. The chapter then highlights the scarcity of literature on Islamic social reporting, particularly in the Islamic banking industry, as the banking sector is assumed to be the source of funds for other companies which are the ideal to be observed within the lenses of social disclosure. The chapter concludes by highlighting the possible reason and gaps that the previous literature may have failed to address.

Chapter 4 outlines the theoretical foundation of the study from the definition, differentiation to application of the theories involved. Furthermore, chapter 4 introduces the SEGE disclosure framework that involves a theoretical application on disclosure. Moreover, the chapter provides a detailed discussion on the proposed theoretical foundation and the disclosure framework. All of these will provide the foundation of the study's construction as well as a guide to interpretations of the results and findings.

Chapter 5 describes the research design of the thesis which consists of the methodology and methods employed and implemented in the thesis. It commences by positioning the thesis' philosophical ideology and methodological viewpoint towards the research stand, thus verifying the method, strategy and technique employed by the thesis. Furthermore, chapter 5 describes the detailed processes and formula in deriving the ordinary index and rules in the 3-level score as well as the

quantitative research method. Moreover, the heptagonal dimensions and icosagonal themes involved will be described and explained in addition to the data collection and significance of the sample of the study.

Chapter 6 constitutes the main findings of the thesis, aiming to explore and compare the SEGE disclosure commitment between the two countries and as a whole for a wider understanding. Moreover, this will be achieved by presenting the countries' differences in ordinary-quality disclosure, highlighting the top performers, comparing the 7 dimensions and 20 themes disclosure commitment, and exploring the disclosure thread for both countries. Furthermore, this chapter provides various and rich statistical evidence throughout the chapters as well as the subjective aspect of interesting quotes in the annual reports to provide a unique element that may explain the disclosure commitment of the Islamic banks in the two countries.

Chapter 7 provides further support for the main findings in chapter 6 by investigating whether the religiosity and regulatory quality have influenced SEGE disclosure, thus potentially explaining the differences of disclosure between Malaysian and Bahraini Islamic banks in one spectrum. This is because the thesis argues that the Islamic banks that operate in an environment that the stakeholders influence and are shaped by the values in a particular geographical area might react differently in their disclosure. The reason for this is that the thesis argues that the society that is shaped by certain values will bring the values, either as external stakeholders or as internal stakeholders, to Islamic banks. In both ways, the organisation, or in this case Islamic banks, are inevitably influenced by stakeholder values.

Chapter 8 offers a valuable discussion and conclusion in reasoning the rich findings in chapter 6 and results in chapter 7. The discussions weave together the findings with theories and the literature in highlighting the thesis' conclusions. The chapter also sheds light on the study of managerial implication and its limitation, as well as offering suggestions and recommendations for future research.

Chapter 2

BACKGROUND OF MALAYSIA AND BAHRAIN FRAMEWORK AND ENVIRONMENT

CHAPTER 2 BACKGROUND OF MALAYSIA AND BAHRAIN ENVIRONMENT AND FRAMEWORK

2.1. Introduction

This chapter provides insight into the regulatory environment and an overview of institutions and events that have emerged in both the Malaysia and Bahrain Islamic banking landscape, including the legislative and educational development. Furthermore, it provides an understanding on how important are the two countries specifically to the thesis as the scope of study and in the literature in general.

Furthermore, this chapter will summarise the regulatory framework, institutional effort, regulations and standards by both countries. Moreover, this chapter provides the discussion to shape the thesis argument and standpoint with regards to Malaysia and Bahrain as samples of the study. This is because Malaysia and Bahrain are selected as the study sample due to their unique model and distribution of Islamic banking which represent the majority of the world's Islamic banking system.

Moreover, even though in the social reporting literature of Islamic banks the sample chosen varies between a large and small number of banks, this thesis argues that the study of the two countries can better represent the Islamic banking industry. This is because the government, society and the institutions that have been developed in these two countries have supported the movement and progress of Islamic banking. Even though there are still big differences in the way that Islamic banking has developed in the two countries (Malaysia: Top to Bottom Approach/Bahrain: Bottom to Top Approach), the fact remains that, as compared to other Islamic countries in the world, these two countries are well ahead in terms of the development and progress of the Islamic banking industry.

In summary, this chapter provides vital information on the Islamic banking landscape in Malaysia and Bahrain, where it is fundamental to understand the two countries' background and banking architecture.

2.2. Regulatory Overview & Achievement of the Islamic Finance Industry in Malaysia & Bahrain

In order for a commercial or business entity to operate smoothly in a sovereign country, the legislative framework is very important in determining the operation of the entity. Malaysia, as one of the sample countries, has a unique legal system which is a combination of the common law (as part of the effect of colonialism) and shariah law (due to the Muslim majority population). The civil court is governed by the common law while shariah law principles are applied in the shariah court. Furthermore, major differences between the common law and shariah law can be seen within their application through the respective courts. The shariah court governs Islamic family and inheritance cases while civil courts cover all other issues. Therefore, Islamic banking legal issues are treated directly under the civil court's jurisdiction with the distinctive treatment of the Special High Court in the Commercial Division which only hears Islamic banking cases.

The legislative environment for Islamic financial institutions, at the moment, can be divided into three segments: **(1) Introductory, (2) Advancement, (3) Strengthening**. The first segment is the formation of the Islamic Banking Act 1983 and Takaful Act 1984 a year later, which began the formation of the first Islamic commercial bank, Bank Islam Malaysia Berhad (Nakagawa, 2009). Moving further to the second segment, in 1993 Bank Negara Malaysia (BNM), with parliament's endorsement, introduced an interest-free scheme where conventional banks could offer an interest-free product as part of their banking activities, popularly known as an 'Islamic Window'. In addition, in the second segment, the Shariah Advisory Council (SAC) was established in 1997 to become the highest authority to decide on Islamic financial service matters. Furthermore, the Shariah Governance Framework was introduced by the central bank of Malaysia in 2010 to strengthen the industry's shariah governance agenda.

Twenty years from 1993, in 2013, Malaysia once again embarked on another advanced step in Islamic finance by introducing the Islamic Financial Services Act 2013 to the Islamic banking industry, which repealed the Islamic Banking Act 1983 and the Takaful Act 1984. Furthermore, IFSA 2013 was the most

comprehensive legal ruling for Islamic banks in Malaysia which provided a clear and comprehensive legal framework that was consistent in all shariah aspects within the regulatory and supervisory framework which included matters of licensing to winding-up an Islamic bank (Central Bank of Malaysia, 2013) .

All in all, it took 10 years for the first segment to build from 1983 to 1992, and it took 20 years for the second phase to end from 1993 to 2012 before entering into the new segment. Now it has been several years after Malaysia first embarked into the third segment of the advancement of the regulatory framework in 2013 where the Islamic Financial Services Act 2013 (IFSA 2013) was first introduced. Above all, this approach can be classified as a '**proactive movement**' compared to other countries which are also players in the Islamic finance industry.

The focus of the discussion now moves to Bahrain, even though there is less development compared to Malaysia. Bahrain established its first Islamic bank earlier than Malaysia in 1979 (Malaysia established its first Islamic bank in 1983). Moving further, in 2002, the International Islamic Financial Market (IIFM) was established under a collective collaboration and effort from several Islamic countries like Brunei, Saudi Arabia and Malaysia.

However, internally, the Islamic bank in Bahrain only depended on Rule book 2 from the Bahrain central bank without any major legislation being passed by their parliament. Moreover, Bahrain has developed the International Islamic Rating Agency (IIRA), the only one of its kind, that provides an independent assessment for Islamic principles, mainly in the capital market. In addition, one of the biggest names and most well-known organisations was established in Bahrain in 1991, the Accounting and Auditing Organisation for Islamic Financial Institution (AAOIFI). Overall, Bahrain's development can be described as a '**moderate movement**'.

2.3. Supportive Institutions and Talent Management

Islamic banking industries have become a very rapidly growing movement in many Muslim majority countries. This includes Malaysia and Bahrain, which are the two most aggressive and proactive countries in developing and moving forward the Islamic banking and finance industry compared to other countries. The industry of Islamic banks experienced a remarkable growth rate during the period 2000-2009 (Mohd. Yusof and Bahlous (2013), which we can call the advancement period. During this period, many institutions were developed and re-branded to support the growth needs of the industry. For Malaysia, the most important body was the Central Bank of Malaysia (BNM), which became the backbone of other supportive institutions such as the International Centre for Education in Islamic Finance (INCEIF), International Shariah Research Academy (ISRA), Islamic Banking and Finance Institute Malaysia (IBFIM), Shariah Advisory Council (SAC), and Islamic Finance Services Board (IFSB).

The second most important institution in the movement of Islamic banking and finance in Malaysia was the Islamic Banking and Finance Institute Malaysia (IBFIM). In the early stages of its establishment, the IBFIM provided important and essential advisory and training services for the practicing bankers in the industry. These ranged from providing a basic Shariah understanding to more advanced, technical issues pertaining to Islamic banking services.

Furthermore, after the 'advancement period' of 1993-2012, IBFIM introduced their new comprehensive accreditation on professional qualifications to practitioners and academics in the 'strengthening period', which showed a more advanced, value-added professional certification called the Chartered Qualification in Islamic Finance (CQIF) (IBFIM, 2013). Moving further, the International Shariah Research Academy (ISRA), as part of a research division in the Islamic banking and finance industry in Malaysia, aimed to produce an applied research that could be useful to the Islamic banking industry in the areas of Shariah and Islamic finance (ISRA, 2016). In addition, apart from the research,

ISRA was responsible for managing a repository centre for Shariah rulings and views (fatwas) in the Islamic banking and finance field in Malaysia.

Besides the research, training and certification bodies, Malaysia was home to the international standard-setting body known as the Islamic Financial Services Board (IFSB). Its roles include serving the international community in Islamic finance by providing sound standards for regulatory and supervisory needs throughout the Islamic finance industry. In addition, the IFSB has been granted special privileges and immunities by member countries to help it perform its mandate and responsibilities. This is done through the Islamic Financial Services Act 2002 enacted by the Malaysian government (IFSB, 2010). The supply of talent management for the Islamic finance industry is important to maintain. Thus, the Malaysian government, through the Central Bank of Malaysia, has tried to close the gap between the industry demand for talent and the supply of talent. This initiative has been realised with the establishment of the International Centre for Education in Islamic Finance (INCEIF) in 2005 which inspired other public universities to offer courses in Islamic finance-related subjects.

As compared to Bahrain, only CIBAFI seems to lead in comprehensive education while local universities also provide education channels for the supply of professionals to the market. Moreover, CIBAFI also acts as the training-hand for the officers in the Islamic banking industry in Bahrain, for instance by providing specialist certificates and training programmes that stretch from several hours to several days (CIBAFI, 2017).

Furthermore, Bahrain is home to the International Islamic rating agency (IIRA), one of the supportive institutions absent in Malaysia. In addition, Bahrain also promotes itself as the Islamic financial hub by having an International Islamic Financial Market (IIFM) competing with the Malaysian Islamic Finance Marketplace. However, this can be seen as two sections of a market where Bahrain is for the Middle East and Malaysia is for the far eastern financial market. Overall, the two countries have shaped their supportive institutions for their Islamic banking industries based on the social norms in the countries,

and this might be the influence of the top government's management initiative and the societal norms factor.

2.4. Regulatory Comparison of Malaysian, Bahrain & International Standards on Social and Environmental Initiative

Source of Disclosure Initiative	Disclosure Criteria
Central Bank of Malaysia (BNM) Malaysia — <i>(No Initiatives)</i>	Nothing involving Social Initiatives to the Community, Environment & Business Ethics Concentrate more on Governance & Risk Issues on Banking Prudential Regulation
Islamic Financial Services Board (IFSB) Malaysia — <i>(No Initiatives)</i>	Nothing involving Social Initiatives to the Community, Environment & Business Ethics Concentrate more on Governance & Risk Issues on Banking Prudential Regulation
Malaysian Code of Corporate Governance (MCCG) Malaysia — <i>(No Initiatives)</i>	Nothing involving Social Initiatives to the Community, Environment & Business Ethics Only informs of the Relationship Between the Company and Shareholder in Principle 8
Accounting Auditing Organisation for Islamic Institution (AAOIFI) Bahrain — International <i>(Intermediate Level of Initiatives)</i>	Corporate Social Responsibility conduct & Disclosure for Islamic Financial Institutions (No.7) <ol style="list-style-type: none"> 1) Policy on Employee Welfare 5/2/4 2) Reduction Adverse Impact on Environment 5/3/2 3) Social Development & Environmental Investment Quotas 5/3/3 4) Micro Finance, Small Business & Social Saving policy 5/3/4 5) Policy for Charitable Activities 5/3/6
Global Reporting Initiative (GRI) International — <i>(High Level of Initiatives)</i>	<ol style="list-style-type: none"> 1) Environmental Disclosure Requirement (G4-EN) 2) Labour Practice & Decent Work Disclosure Requirement (G4-LA) 3) Human Right Disclosure Requirement (G4-HR) 4) Society Disclosure Requirement (G4-SO) 5) Ethics & Integrity (G4-56-58)
Equator Principle International — <i>(Intermediate Level of Initiatives)</i>	<ol style="list-style-type: none"> 1) Principle 2: Environmental & Social Assessment 2) Principle 3: Applicable Environmental & social standards 3) Principle 4: Environmental & Social Management System

Table 2.1: Malaysia VS Bahrain VS International Standard (Author)

Given the information detailed in the above table, it is surprising that, given such a progressive Islamic banking industry movement in Malaysia compared to other countries in the world, Malaysia has a lack of the values and standards for voluntary disclosure of the social and environmental assessment. The Malaysian government, especially the central bank, concentrates more on the issues of financial

stability, risk management, governance and banking prudential issues. Indeed, a sound financial system is important as a base to move forward into a more comprehensive and sustainable reporting. However, no initiatives have yet been introduced by any financial regulatory bodies in Malaysia on any social and environmental standards to portray the moral-obligation of Islamic banks.

These findings are gaps in the Islamic banking regulatory environment in Malaysia. In addition, the conventional banking sector that was established in Malaysia much earlier has no evidence of any initiatives either for developing social and environmental disclosure standards locally or for adopting any internationally-renowned standards. However, the social, environmental, and ethics-based disclosure standards have not yet been initiated and or have not been made a mainstream agenda parallel to the Islamic finance growth all over the world.

The central bank of Malaysia is the main source of initiatives for Islamic banking growth in Malaysia. Hence, it is not a surprise that the Islamic Financial Services Board (IFSB), the Malaysian Institute of Corporate Governance (MICG) and Malaysian Accounting Standard Board (MASB) have not produced any standards or principles related to social and environmental disclosure. In contrast to its counterpart, the Bahrain government has moved ahead via their Accounting and Auditing Organisation for Islamic Finance (AAOIFI) corporate social responsibility standards even though these are not freely available as compared to the western social and environmental principles and standards. The Accounting and Auditing Organisation for Islamic Finance (AAOIFI) has been publishing their standard since 1993 (Iqbal and Molyneux, 2016), and the standards have been updated from time to time by the Accounting and Auditing Organisation for Islamic Finance (AAOIFI) where the latest update was in 2017.

In comparison between the Accounting and Auditing Organisation for Islamic Finance (AAOIFI) and their western counterparts in terms of the comprehensiveness of standards and principles, western bodies such as Global Reporting Initiative (GRI) and Equator Principle are much more advanced and mature in categorising each dimension of the social and environmental segment. Moreover, their

standards are more specialised on the social and environmental dimensions rather than mixing them with accounting and governance standards like the Accounting and Auditing Organisation for Islamic Finance (AAOIFI). Islamic countries need to learn from the western system in these particular issues.

Malaysia needs to start making social and environmental standards for disclosure in Islamic banks as comprehensive as their governance, risk and prudential standards in the Islamic banking sector to make them on par with international competitors. This is important to Malaysia in order to progress further and to maintain its leading performance in the Islamic banking industry, not just in banking activities but also in social and environmental issues.

As for Bahrain, even though there are not many initiatives and institutions being set-up to promote the well-being of the Islamic banking industry, there is at least one organisation, AAOIFI, which sets a standard for corporate social reporting. This is in comparison to Malaysia where nothing is mentioned on social responsibility. Based on this, the research will later present the findings to see whether the availability of a specific standard makes any difference in the two countries SEGE disclosure. In general, there is no standardisation of the Islamic banking system (Karbhari et al., 2004). Moreover, social and environmental standards are at minimum if not absent.

Furthermore, Bahrain, as compared to other Middle East countries, is far more advanced in regulatory, institutional, market and Islamic banking institutions. However, despite this advancement, Bahrain still falls short behind Malaysia in terms of progress while having its own strengths. Therefore, it would be interesting to investigate the SEGE⁵ disclosure by these countries.

Overall, this background section advocates that Malaysia and Bahrain are ideal and practical sample countries to be considered when studying Islamic banking-related issues due to their rich operational and historical backgrounds.

⁵ SEGE are the Shariah, Shariah Governance, Social External, Social Internal, Environment, Ethics & Governance dimensions of disclosure.

2.5. Conclusion

This chapter try to provide argument and layout of the differences in the regulatory setting, institutional environment and country overview about the development of the Islamic banking industry, which will give implications on the thesis' findings. This is because Malaysia and Bahrain are the countries with the most Islamic banks, with Malaysia in the first rank and Bahrain as the second largest host for Islamic banks from around the world (Mohd. Yusof and Bahlous, 2013).

To further distinguish Bahrain and Malaysia in terms of shariah governance, Malaysia has its own shariah governance standards issued by its central bank while Bahrain utilises the general governance guidelines and rule book 2 issued by its central bank and the Bahrain institute of banking and finance. Furthermore, between the two countries, only Malaysia provides licences for international Islamic banks to operate in the country. Moreover, for corporate social responsibility, Bahrain leads the way by having a small guideline in the AAOIFI standard on social responsibility while Malaysia has nothing specific on the same matter.

Overall, this chapter serves as a representation of the unique context in comparing both the Malaysia and Bahraini Islamic banking background as the two samples for the study. Moreover, the differences between the two countries found in this chapter provide the motivation and avenue to further understand the context of the two countries during the study. Furthermore, it helps in setting the study scope, direction and connections with other chapters in the thesis. Even though some features of the two countries, in terms of environment, governance and social responsibility are better than one another, this will later help in answering the research questions when pairing the narrative information and the statistical results of the study in chapter 6 and 7.

Next, the literature review chapter will further the discussion.

Chapter 3

(Review of Literature)

CHAPTER 3 REVIEW OF LITERATURE

3.1. Introduction

Social reporting, usually linked to corporate social responsibility and environmental disclosure, has been a topical interest in scholarly research since the early 1970s. However, the social responsiveness values that shape today's alertness of social responsibility towards society and the environment can be traced back to the ancient times of Egypt, Babylon, Greece and China where, for instance, structured work procedures considered workers' rights and benefits, something which was documented in manuscripts (Anderson, 1989).

In the modern world, various theoretical backgrounds in the body of literature have established that social and environmental disclosure are considerably important to organisations (Gray, 2001), and this may be influenced by a variety of explanatory variables. Prior research has shown a dedicated effort towards exploring the extent and nature of corporate social and environmental disclosure within the annual report, recently also involving official websites as well as the latest medium of the organisation's social media (Capriotti and Moreno, 2007, Kim et al., 2010). However, due to the nature of the annual report that is not easily perishable, it is maintained to be the main official document for scholarly work on social and environmental reporting.

Furthermore, having understood the underpinning variances in the theoretical foundations and various explanatory causes for social reporting described in the last paragraph, the thesis chose to take the complementary path of legitimacy and stakeholder theory as lenses to investigate and explain social reporting by Islamic banks. In the literature, there have been many other explanations and explorations through other theories; however, the closest theory resembling the values for the Islamic religion that represent Islamic banks is stakeholder theory. Nonetheless, legitimacy theory shares some of stakeholder theory's traits in that it also demonstrates Islamic values within society's social contract environment. Therefore, this thesis will concentrate on the discussion in social reporting

literature that relates to legitimacy and stakeholder theory, and it will later narrow the discussion down to social reporting in the banking and Islamic banking sector.

3.2. Social Reporting and the Need to be Legitimate

Social reporting is supposed to be central to any organisation. Moreover, the study of social disclosure is an important area of business ethics and social accounting literature that will be relevant for many years to come. Craig Deegan (2002) strongly indicates that social reporting research has been an area of interest for decades. Corporate failures such as Enron have triggered measures that are far more responsible and have embedded societal values into corporate activities (Clarke, 2005). Furthermore, Adams and Zutshi (2004) argue that social responsibility disclosure appears to be motivated by moral responsibility and business interest. Since moral responsibility and business interest are drivers for social responsibility disclosure, social disclosure can be one of the measurements that evaluate how well companies react and address their social contract with society (Ramanathan, 1976).

As highlighted by Ramanathan (1976), social accounting is the bigger picture of the system to evaluate firm social performance. Hence, social disclosure by the firm itself is a tool used to inform the society of the firm's commitment towards their expectations, and this can be used to reduce the legitimacy gap (Sethi, 1979). By having this socially responsible disclosure, the long-term objectives of surviving in the industry by the firms will be established (Adams and Zutshi, 2004). In general, those firms that are involved in an industry that fall under the 'sensitive-label' will be bound more tightly to the social contract (O'Donovan, 2002) rather than those firms which are not particularly visible to the public (Slack and Shrives, 2008). Guthrie and Parker (1989), Deegan et al. (2002) and O'Donovan (2002) are previous studies which have involved sensitive-label industries that are highly visible to society due to their nature of being in the mining, chemical, petroleum, production and paper businesses. Furthermore, Islamic banks, which fall in the financial sector, will also be considered a sensitive industry for the recent financial crisis in 2007-2009. This will motivate Islamic banks to strengthen their legitimacy by adhering to the societal social contract and thus fill the legitimacy gap. Therefore,

legitimacy is an inevitable factor for organisational social reporting in order to gain legitimacy from the societal social contract.

3.2.1. Role of Legitimacy in Social Reporting

It is widely agreed upon that legitimacy is one of the factors that contributes to corporate social reporting initiatives and disclosure by organisations (Chan et al., 2014, Mahadeo et al., 2011, Archel et al., 2009, Slack and Shrives, 2008, Deegan et al., 2002, Craig Deegan, 2002, Campbell, 2000, Clarke and Gibson-Sweet, 1999, Adams et al., 1998). This is despite the surrounding debate and argument on other possible aspects and influences on how and why organisations make such social disclosure in their annual report as part of their corporate social reporting initiative.

The mission of gaining, maintaining and repairing legitimacy is essential to an organisation (O'Donovan, 2002). However, O'Donovan (2002) argues that gaining and repairing legitimacy seems harder compared to maintaining legitimacy; thus, Deegan and Unerman (2011) suggest that maintaining legitimacy is able to be achieved by anticipating changes in the community's perceptions regarding certain issues. Deegan and Unerman (2011) indicate that companies need to be up to date on important information and carefully understand the trends of a highly informed society in order to maintain legitimacy during a particular time. This will help companies make sound decisions on their social reporting. In this thesis' case, Islamic banks need to be vigilant to society's expectations, for instance in matters related to reputational risk that can jeopardise the trust of society.

Furthermore, equally important is the "topical" conception that is consistent with the argument by Campbell (2000) who found that organisations disclose environmental reporting when a natural and environmental concern becomes a significant subject observed by society. Hence, this clarifies the organisation's need to propel the legitimacy initiative as a particular society becomes more educated and advances through time with sensitive issues. In relation to the Islamic banking industry, that by nature is a sensitive industry (as it relates to religion as a basis where society may expect certain

disclosure to be reported), Islamic banks from a business point of view are the same as conventional banks.

It is important to note that cultural differences, in the case of this thesis religious orientation and the values of the country, may affect the social reporting of the Islamic banks. Sidney (1988) argues that national systems are determined by the cultural and environmental factor of a country; thus, Malaysia and Bahrain might differ in their commitment to social reporting because of their differences in national values.

3.2.2. Legitimacy Theory in Social Reporting Literature

Environmental issues have been one of the pioneering factors which have driven social reporting due to the nature of their variable perception across national and corporate contexts (Mahadeo et al., 2011). Apart from environment, the area of social reporting covering social responsibility, corporate, and risk governance is portrayed by organisations in various mediums of publication such as annual reports, websites and separate social environmental reports (Slack and Shrives, 2010). These various mediums of communicating social reporting are one of the factors that have contributed to the increase in social reporting practices by companies.

In reflecting back on the literature, many researchers agree that social and environmental reporting started becoming relevant around the 1970s and much research during that period was empirically descriptive, working together with normative model building for disclosure, as explained by Owen et al. (2008) and advocated by Slack and Shrives (2010). However, social reporting research moved further in the 1980s and 1990s to slightly more theoretical stages where theories were used to explain social reporting initiatives, with legitimacy theory becoming one of the more prominent theories in explaining social reporting by companies (Lindblom, 1993).

In the 21st century, social reporting research has become much more complex with new theories being applied within the social reporting area and the use of sophisticated methods and rigorous

analytical tools (Owen et al., 2008). In addition to the new input for social reporting research, legitimacy reasoning still dominates in explaining social and environmental reporting. Even though stakeholder, political economy, and accountability perspectives were also pragmatic in the field, many scholars attest to the dominance of legitimacy (Craig Deegan, 2002, Deegan and Unerman, 2011, Archel et al., 2009, Slack and Shrives, 2008, Cho and Patten, 2007, O'Donovan, 2002, Deegan et al., 2002, Campbell, 2000, Clarke and Gibson-Sweet, 1999, Adams et al., 1998, Suchman, 1995, Lindblom, 1993, Patten, 1992, Dowling and Pfeffer, 1975). In addition, social theories such as stakeholder, legitimacy, political economy, and accountability share several similarities and disparities but what makes them distinctive to one another is the viewpoint from which the theory is perceived and tested (O'Donovan, 2002).

Regarding the influence of legitimacy in social reporting's relationship with the social contract between companies and its surrounding society, Dowling and Pfeffer (1975) argue that social contracts between businesses and society which supply legitimacy to companies materialise due to businesses needing to use social resources and the need to retain entrusted licenses to actively survive the corporate world (Craig Deegan, 2002). The consequences of not adhering to social norms or social contracts tends to invite survival challenges to companies (Lindblom, 1993). However, in light of survival, it is becoming a concern that legitimacy strategies could be used as a tool for "less performing banks" to become hypocrites towards the concerns of society by mirroring a good image in their social disclosure initiative. Moreover, this hypocrisy associated with corporate social reporting has been argued in a study by Cho et al. (2015) which is derived from the earlier work of Brunsson (1989), even though the work been labelled as inconsistent throughout the 25 years of its establishment (Arjaliès (2013). Nevertheless, the argument is there to be debated and discussed. In relation to Islamic banks, the social contract between the societies where the banks operate is inevitable since the value of Islamic banks is in its religious belief of the different approach towards banking products. However, society looks forward to other social obligations that sometimes go beyond the banking business.

Overall, it is important to mention at this stage that this thesis uses legitimacy theory reasoning to find evidence of whether Islamic banks disclose information on their SEGE (Social, Shariah, Environment, Governance and Ethics) initiatives to portray their effort in becoming legitimate and maintaining legitimacy in the eyes of society as a whole. Furthermore, by investigating the disclosure level on SEGE information, it will concurrently answer part of the question of how important SEGE disclosure is to Islamic bank legitimacy. The more they disclose, the more they signal their enthusiasm towards becoming legitimate. Indeed, SEGE disclosure level and quality may explain how significant the disclosure is to Islamic banks. Furthermore, Malaysia and Bahrain might have different approaches towards social reporting, and this will be determined in the findings and discussed in the discussion chapter.

Legitimacy cannot be avoided as, in order for organisations such as Islamic banks to move further in advancing into the stakeholders' circle, Islamic banks need to ensure legitimacy is adequate by adhering to the basic societal social contract before moving on to more complex stakeholder demands and concerns. Therefore, the managerial and ethical stakeholder approach needs to be applied and Islamic banks need to convey, through the annual report, issues related to management and the ethical spectrum of stakeholders (Deegan and Unerman, 2011).

Moreover, having understood the importance of legitimacy in social reporting, the next section will review and critically discuss the stakeholder viewpoint in the literature of corporate social reporting to see the development and the trend of research which will be significant to this thesis. The concept of "important parties" will be refined in the stakeholder theory section in order to further understand and appreciate the concept.

3.3. Stakeholders and Social Reporting

The stakeholder concept plays an important role in explaining various organisational functions and roles within the corporate social reporting area (Deegan and Unerman (2011)). The stakeholder perspective has been the second most dominant theory in explaining corporate social reporting initiatives in accounting literature (Chiu and Wang, 2015, Williams and Adams, 2013, Orij, 2010, Huang and Kung, 2010, Belal and Roberts, 2010, Kaler, 2009, Arenas et al., 2009, Jamali, 2008, Greenwood, 2007, Cooper and Owen, 2007, Knox et al., 2005, Dawkins and Lewis, 2003, Jensen, 2001, Donaldson and Preston, 1995, Roberts, 1992). In addition, the variety of research designs and interpretations of stakeholder theory's application in corporate social responsibility research has allowed the idea of stakeholder theory to contend and conflict with legitimacy theory, and this has been critically discussed in the last section.

However, it is a strong position within this thesis, which is consistent with the argument of Gray et al. (1995b), that stakeholder theory and legitimacy theory overlap and complement each other. Furthermore, as advocated by Deegan and Unerman (2011), stakeholder theory provides a more refined resolution by segregating stakeholders into several particular groups within society, compared to the more general definition of society in legitimacy theory in accounting literature.

In the next section, the stakeholder theory principle will be concisely discussed in order to point out the basic essence of the branches of stakeholder theory and further understand and appreciate the importance of the theory's application and its difference to legitimacy theory in accounting research. In the later section, the trend and application of stakeholder theory in corporate social reporting research will be deliberately and critically discussed to illustrate how important the theory is to this research field and this thesis.

In summary, the significance of the whole stakeholder theory discussion section is to seek, prove and understand the reviewed literature, including specific research that is undertaken from the lens of stakeholder theory ranging from relevant earlier literature to newer and up to date research in the corporate social reporting area. All of these features will influence the understanding of the thesis and its approach to corporate social reporting research.

3.3.3. Understanding Stakeholder Approach

Firstly, it is wise to discuss the two branches of stakeholder theory before moving further. There are two divisions known as the normative and positive division of stakeholder theory, both distinct to each other on how they contribute to the theory (Deegan et al., 2007). The normative is also recognised as the ethical or moral branch while the positive branch is known as the managerial or empirical branch (Deegan and Unerman, 2011). The need to understand the normative and empirical-based theory's motivation is crucial as these two approaches have different uses and motives. The first one is the ethical branch, where the normative task explains "what ideally should be done" with some underlying ethical, moral, principle and philosophical themes (Donaldson and Preston (1995). The ethical branch of stakeholders should be the underlying objective before considering the managerial part of stakeholders. Furthermore, Deegan and Unerman (2011) advise that in the normative perspective, advocates need to understand that organisations may not necessarily act like what is expected in principle.

In contrast, the managerial branch typically advocates the idea of the "managing specific group" expectation, and this normally refers to the powerful stakeholder (Deegan and Unerman, 2011). The powerful stakeholder can be any group that the organisation perceives to be important or powerful, for instance the government or regulator. To be successful, organisations need to satisfy demands and resolve their conflicts with various "powerful" stakeholders (Ullmann, 1985). In short, Deegan and Unerman (2011) managerial perspective of stakeholder theory is in line with Donaldson and Preston (1995) instrumental perspective of stakeholder theory. Furthermore, Gray et al. (1996b) argues that

the managerial division of the stakeholder perspective seems to be more organisation-centred. Therefore, the probability of the organisation's management manipulating stakeholders rather than managing them honestly is inevitable.

This thesis argues that the ethical division of stakeholders should be the underlying principle behind addressing numerous stakeholder groups. Moving further, the managerial division of stakeholders can be treated on the basis of the "prioritise stakeholder" scheme, as suggested by Knox et al. (2005). By combining the essence of the ethical and managerial approach, this may help to balance between the "powerful" stakeholder and the "ethically concerned" stakeholder.

As has been mentioned before, stakeholder theory suggests that a more refined group of stakeholders would be more beneficial and practical to define for each of the groups, as the need of each stakeholder group can be identified and prioritised accordingly to minimise conflict between society and the organisation (Deegan and Unerman, 2011, Knox et al., 2005). On another note, Roberts (1992) argues that the organisation needs to satisfy its own economic performance before considering the social demands, and this is definitely true as the company needs to be sustainable and make a profit before contributing to the various stakeholders. However, the process of making a profit will need to be in agreement with the ethical and moral principles discussed before. This ethical and moral performance can be defined through the social contract determined between the "current" society and the organisation's understanding of social obligation and responsibility.

The behaviour of Islamic banks in Malaysia and Bahrain towards the SEGE initiative may be influenced by the sensitive and high influence stakeholders. Moreover, how the Islamic banks in the two countries react depends on the orientation of the stakeholders; if the high influence stakeholders are not concerned with propelling the social and ethical issues, the Islamic banks might not be interested or be pressured enough to implement such activities and make disclosure of such activities. However, sensitive stakeholders can influence and pressure the Islamic banks to commit into activities

concerning SEGE dimensions. The type and style of stakeholders in Malaysia and Bahrain might be different and may therefore respond and commit to social disclosure differently.

3.3.4. The important of stakeholders in social reporting

Stakeholders are complex individual units that resemble organisations, society, individuals, groups, etc. which have their own traits and strengths (influential/non-influential) that can affect how organisations operate. In social reporting, the stakeholder theory framework is one prominent explanation (Chiu and Wang, 2015).

Stakeholders play an important role in an organisation's operation. An influential stakeholder can influence company standards of disclosure, for instance with regard to the social responsibility requirement (Belal and Roberts, 2010). In a situation where a company senses pressure from relevant stakeholders such as the regulator, it will engage in various activities to tame the pressure from said stakeholder (Huang and Kung, 2010).

Furthermore, in relation to Islamic banks, the pressure from the central bank on certain Shariah governance standards may influence the Islamic banks to disclose such information. In addition, other stakeholders like the non-governmental organisation that works closely with employee's rights may also influence Islamic banks to act and disclose on employee related issues. Since Islamic banks, by their very nature, have a greater coverage of responsibility towards stakeholders (Belal et al. (2014) Haniffa and Hudaib (2007)), the stakeholder theory regime seems to be the best and nearest to Islamic banking's foundation.

Despite the fact that generally (as stated in the literature) the bigger the company size the better they disclose information on social performance (Clarke and Gibson-Sweet, 1999), Islamic banks, whether big or small, inevitably address stakeholders in their social reporting because of their religious roots as well as due to societal expectations. However, in the context of Islamic teachings, the concept of stakeholders is closer to Islamic banking principles and has its own particular explanation. For instance,

as vicegerents in the world, Islamic banks have a wider group of stakeholders (Lewis, 2001). This will even include nature and wild life (Rizk, 2014). Therefore, this thesis advocates that the stakeholder concept be close to social and environmental reporting due to its variation.

Overall, the stakeholder perspective normally discusses stakeholder groups such as employees, regulators, the government and the extent to which they should be managed. Nonetheless, stakeholder theory demonstrates the importance of organisations behaving in a particular manner to satisfy the demands and expectations of a group of particular stakeholders and society according to ethical principles and priority in order to create the best possible outcome and a win-win situation. Another important piece of information on stakeholders based on social reporting literature is the significance of prioritising and grouping stakeholders as this will help to achieve the maximum distribution of ethical principles embedded in the normative division of stakeholders and administrate the priority stakeholders fairly from managerial stakeholder perspectives.

To complete this section on stakeholder theory-based literature, it is important to emphasise how this thesis will use stakeholder theory as one of the lenses to explain SEGE disclosure in Islamic banks. Instead of grouping the stakeholder into one society in general, such as in the definition of legitimacy (Deegan and Unerman, 2011), stakeholder theory approaches various stakeholders by dividing them into more refined groups. This will enable them to carefully arrange the groups according to their need (Knox et al., 2005). The stakeholder perspective coincides with the Islamic concept of guardianship (vicegerent) which promotes fair and just treatment to many significant stakeholder groups, for instance society, the environment, animals and the earth (Rizk, 2014). Since stakeholders perceive the treatment of the social and economic role of Islamic banks to be equal to each other (Maali et al., 2006), it will influence the Islamic bank to approach the stakeholder theory from both the ethical and the managerial branch of the stakeholder perspective. Once again, since the Islamic bank is labelled under the ethical and religious banner, they need to take care of their business to survive the business world and at the same time observe the various stakeholders who have various needs and concerns

towards Islamic bank activities. Therefore, stakeholder theory will help this thesis to explain and identify to what extent SEGE disclosure by Islamic banks addresses various stakeholders.

3.4. Banking Industry and Social Reporting

3.4.1. Banks and Visibility

The wide coverage of the “sensitive label industry”, such as the chemical, oil, gas, and paper industries in which the nature of business is quite vulnerable to environmental and other nature-related concerns, has been given extensive attention in corporate social reporting literature (O’Donovan (2002). However, the banking industry is often forgotten even though it plays an important role in the society. Nevertheless, in social reporting literature, the coverage for the banking industry is still limited and therefore the enthusiasm to explore it is inevitable (Scholtens, 2009, Linsley, 2008, Humphreys and Brown, 2008, Manuel Castelo and Lúcia Lima, 2006, Simpson and Kohers, 2002, Eric, 1998).

Generally, banking industries act as financial intermediaries to “sensitive industries” which are exposed directly to social and environmental issues. As such, this makes the banking sector intermingle indirectly with the issues of sustainable development (Scholtens, 2009). Therefore, it is critical that social reporting by banks be studied as it is the essence by which every other company receives the funds to propel their business, be it a “green business” which is socially pleasant or a “red business” which is socially improper. Companies’ essential relationships with the financial services industry makes socially responsible banking a notion that is crucial to be observed in the financial services system (Scholtens, 2009). That is why in this thesis banking industries will be the target sample of the study, having realised the importance of banking and its potential role for a “socially responsible model” in giving financing to companies.

Moreover, banks can be seen as a facilitator from which commercial and industrial activity, which may cause environmental damage, originates (Thompson and Cowton, 2004). Thus, banks should be closely monitored and be urged to create a better “Social and Environmental Screening” process for its clients. In addition, Campbell and Slack (2011) point out that banks play a central role in providing

the source of finance towards the economic sector. This fact makes banks more accountable and responsible in selecting their customer portfolios. Furthermore, the type of “ethical banks” are relatively very small in number compared to normal flag banks (Cowton and Thompson, 2000). Thus, this provides a challenge to make great changes in the bank’s lending and screening process throughout the world. Even though many banks from developed countries adhere to the United Nation Environment Programme (UNEP), Thompson and Cowton (2004) nevertheless argue that many banks’ businesses would be affected if they became more thorough in screening the environmental impact of their potential clients. However, even though UNEP signatory banks perform better than non-signatories in terms of considering the environment in their lending, the differences are not extensive (Cowton and Thompson, 2000).

Furthermore “visibility” is an important argument in determining corporate image as mentioned by Manuel Castelo and Lúcia Lima (2006) in their study of corporate social responsibility in Portuguese banks. This “visibility” is a mirror to the thesis’ sample of Islamic banks. Even though Islamic banks are not huge in size, their “visibility” makes SEGE disclosure an important element for them to consider. The religious and ethical banner that they constitute makes their “visibility” inevitable to the Muslim community and an ethical and morally concerned society. Since conventional banks, like the example of the Co-operative Bank and other ‘ethical banks’ which operate in the western system, appreciate and consider moral and ethical value in providing financing (Thompson and Cowton, 2004), Islamic banks may need to put more effort to be at par with, if not supersede, the lending screening standard of those ethical and morally-based banks in the western system. Significantly, if this were to be achieved, Islamic banks will have an enhanced position to legitimate their existence in society.

Moving further, Campbell and Slack (2011) find that banks do not really care about the environment when providing lending as part of their assessment. However, if Islamic banks really want to uphold their religious banner, the environment needs to be considered in financing a project or a company. This is important as the value of religion embedded in Islamic banks makes their existence as financing

providers close to a believer's heart. In addition, if the trust is not taken into consideration carefully, it will result in the customer's negative perception, similar to what happened to Northern Rock where the stakeholder perception towards the bank was reduced (Linsley and Slack, 2013).

Even though a bank's management acts socially responsible, portrays itself as such in its annual report, and is well-known by society, it does not necessarily protect the bank from bankruptcy (Fassin and Gosselin, 2011). In reference to Fassin and Gosselin (2011), Islamic banks should not just strive to be champions in the SEGE initiative, they should also at the same time manage their business to survive upcoming economic turbulence. Since Islamic banks originate from a majority of the 3rd world countries and developing countries, it is wise to follow some of the positive examples shown by the majority of western banks on environmental risk assessment in providing financing, as advocated by Scholtens (2009), where the majority of them provide a sustainability report. In addition, this thesis suggests that Islamic banks can progress further by assessing the "humanitarian-performance" of the client before providing financing. The "humanitarian-performance" can be, for example, questions of "Whether the company is involved in business that is prone to labour oppression?", "Does the company reward their workers in an acceptable standard?", "Are the company's working hours for employees acceptable?", and "Does the company provide a standard benefit programme for employees?". If this can be achieved, it will further progress ethical banking to the next step.

Islamic banks need to learn a lot in terms of ethical and responsible banking from the western system. This can be realised by incorporating the ethical concept from the cooperative bank, as discussed by Harvey (1995). For instance, in matters concerning animal experimentation, the fur trade, tobacco, breaches of human rights by the government, and blood sports. Even though tobacco, pornography, and arms dealing activities are not supported and financed by Islamic banks, more progress needs to be made to be on par with the cooperative bank model. Moreover, the transparency of the cooperative bank model is way beyond the Islamic banks' current state. However, this is due to their long history that traces its origin back to 1830 (Harvey, 1995). In addition, when all the important

ethical and responsible criteria have been satisfied, the second stage is to ensure that the ethical and responsible measures have been carried out sincerely without the “perfunctory ethical function” as advocated by Campbell and Slack (2011).

3.4.2. Social Reporting in Banking Institutions

Banking systems are central to any economic entity in their role as financiers to businesses and other economic units (Campbell and Slack, 2011). Moreover, for example, banks act as organisers to payment systems, financial intermediaries for economic units, and agents in business and investment dealings. As such, by having various important roles and responsibilities in the economy, banks certainly have a great impact on society (Scholtens, 2009). Therefore, banks need to take into consideration the impact that the banks may facilitate by providing financing to non-performing firms or projects in terms of social and environmental concerns. The fact that the banking system is widely known within the modern world means the majority of human beings that construct a modern living society will be using the services provided by the bank. Not to mention the fact that every society in the first and third world economies are attached to banking services from their salary account to their investment account. Consequently, the study on the social reporting of banks is important as banks are at the heart of the economy in which most of the society lives.

In the area of social and environmental accounting literature, inadequate attention has been given to the banking sector (Campbell and Slack, 2011) due to the nature of their camouflage compared to other firms which operate within the sensitive-label sector. However, in the western world (Europe & North America), many banks have in place the policy of social and environmental assessment for their corporate lending policies (Scholtens, 2009). For example, in the United Kingdom, 60% of banks have formal corporate lending policies which cover social and environmental valuations (Thompson and Cowton, 2004). This case, however, is in contrast with the majority of developing countries where the vast majority of them do not have formal lending policies or corporate client impact screening on

social and environmental concerns. Despite this, some banks in developing countries, such as Brazilian banks, have become more structured in their social responsibility reporting (Ventura, 2007).

In establishing social and environmental policies in banks, it will take the collaboration of the local government and the top management of the banks to make this a reality. However, the screening and formal lending policies implemented for the social and environmental pursuit can be a perfunctory function (Campbell and Slack, 2011) rather than a pure sustainability strategy for society and the environment (Thompson and Cowton, 2004). This is because studies have found that the management, particularly the social responsibility team, struggle in instilling the values of social responsibility to their employees as their employees are not really concerned about it (Humphreys and Brown, 2008). Moreover, Campbell and Slack (2011) found that banks do not really care for environmental risk in bank lending while Thompson and Cowton (2004) found that the majority of banks take environmental criteria for reasons of compliance and to mitigate environmental liabilities. These issues are important to be addressed as banks need to be socially responsible not just in the technical-procedural side, but, most importantly, in the spirit of upholding the ethical dimension of the bank's role. This can be revised by the banking sector by looking back at the history of the cooperative bank's establishment and learning from their values and the foundations of their ethical bases (Harvey, 1995).

Because of the variety of strategic roles of banking that affect society, social responsibility initiatives are an inevitable reality of banks. On another note, most significantly, banking with integrity, with a combination of religious values, happens to be more visible to society, and this means there is a higher expectation placed upon them by a concerned society. The moral obligation by Islamic banks is a reputation, which then translates into reputational risk. Moreover, Islamic banks are expected to address all the social responsibility issues better than conventional banking because of their moral and ethical identity (Haniffa and Hudaib, 2007). In the next section, the literature on Islamic bank social reporting will be briefly discussed.

3.5. Social Reporting in Islamic Banking Institutions

Overall, in the literature, social accounting research in the Islamic circle, particularly in Islamic banks, can be divided into three main aspects. Firstly there is the conceptual, theoretical and philosophical understanding of Islamic accounting (Kamla, 2009, Kamla et al., 2006, Lewis, 2001, Gambling and Karim, 1986). Secondly, there is the technicality of accounting processes where the research argues that Islamic social reporting should have certain information (Baydoun and Willett, 2000). However, in this area, less is able to be explored as the majority of conventional accounting procedures are not very contradictory with Islamic values. For example, the phenomenon where the recording and double entry system, balance sheet, and income statement will be altered according to Islamic teachings if there are any disputes has been well discussed by Lewis (2001) with regards to how social reporting in Islamic organisations adapt and modify accounting procedures from their conventional counterparts.

Furthermore, the moral and legal obligation in which Islamic banks are bound to all stakeholders has shaped two criteria which Islamic banks need to uphold. First is the principle of full disclosure to all, and the second is accountability to all (Lewis, 2001, Baydoun and Willett, 2000). Islamic banks are accountable not just to a select few stakeholder but to a wider stakeholder which includes the environment (Kamla et al., 2006, Rizk, 2014). Kamla et al. (2006) argues that, in terms of environmental concerns, Islam and western environmental accounting principles are parallel. This fact has made the integration of international initiatives and standards on environmental practices easily adopted, but they have not yet been seen in the standard-setting bodies of the Islamic banking industry, such as in the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Finance Services Board (IFSB).

The third area of Islamic accounting research coverage is the empirical research on the social reporting of Islamic organisations, particularly in the Islamic banking sector (Ali Aribi and Arun, 2015, Mallin et

al., 2014, Belal et al., 2014, Aribi and Gao, 2010, Kamla, 2009, Haniffa and Hudaib, 2007, Maali et al., 2006). These previous studies are important for the evaluation of the actual practices of Islamic banks on their social and ethical commitment towards various stakeholders. However, much of this research has found unsatisfactory results in Islamic bank social and ethical performance. In light of improvement, the empirical and critical discussion literature complement each other in reiterating the importance of social accounting in adhering to its content, motivation and main drives via facts and debates gathered in empirical and critical Islamic accounting research.

All of these areas of research are well discussed in the current literature; however, they are still inadequate compared to the vast coverage on their western counterparts. More research needs to be done empirically and critically to suggest the theoretical foundation for the combination of a framework for Islamic banks to follow in their disclosure practices. However, the thesis findings in chapter 8 will be based on the lenses of stakeholder and legitimacy theory as the primary explanation alongside social norms theory as the key to societal values.

In the next section, there is a more comprehensive discussion on social reporting literature.

3.5.3. Early Stage of Social Reporting in the Islamic Banking Literature

Baydoun and Willett (2000) conducted one of the earliest studies in the social reporting of Islamic bank research on the ideal Islamic corporate report for Islamic banks to adopt. The study found two important criteria, namely the form of social accountability and the importance of full disclosure by Islamic business entities. On the other hand, the study suggests that Islamic banks should include extra value-added statements as a format in Islamic corporate reports.

In another argument, Baydoun and Willett (2000) stress that the difference between conventional and Islamic corporate reports is with regards to full disclosure and not measurement issues. This is because Islamic accounting is more concerned with the information disclosed, in line with the spirit of full disclosure (Lewis, 2001).

Moreover, the technicality of the conventional accounting system has been adapted by the Islamic accounting model rather than having replaced it, mostly in places where it is not contradictory with Islamic teachings. This is in line with the argument by Lewis (2001) where there are two approaches to Islamic accounting theory and practices. The first approach is to start with Islamic teachings and then establish objectives and procedures in relation to the conventional accounting stream. The second approach starts with what has been done in the contemporary accounting stream, comparing them to Islamic values, and accepting them if they are in line with Islamic teachings and rejecting those that contradict with Islamic values.

In another argument, Baydoun and Willett (2000) critically discuss the need for Islamic banks to supply extra value-added statements and current value balance sheets in addition to historical cost balance sheets. This focused on accounting technicalities. However, Kamla et al. (2006) touched upon the notion of how the environment relates to Islamic accounting and this relates to the inner values of Islamic principles that relate to environmental accounting.

In the study of Kamla et al. (2006), many verses from the Quran were discussed as proof of Islam's appreciation of nature and the environment. One of these verses was, "Will they not regard the camels, how they are created? And the heaven, how it is raised? And the hills, how they are set up? And the earth, how it is spread" (Ali, 2009). This verse was discussed in (Kamla et al., 2006) to demonstrate Islam's appreciation of nature as a motivation for Muslims to look after the environment as trustees in this world. It is argued that Islam has a deeply rooted and holistic concern towards the environment (Kamla et al., 2006), which is in line with the principle of environmental accounting in the western perspective.

However, in Islam, these principles were mentioned and explained some 1400 years ago in the Quran. Moreover, this is in reviewing the literature in conjunction with verses in the Quran that relate Islam and accounting. Lewis (2001) defined the word "hesab" as "account", the root word for accountability, where in the Quran the word "hesab" or account relates to one's responsibility towards God in relation

to all matters from human endeavour to nature, where every Muslim is accountable for their deeds. Moreover, debt recording has also been taught in the Quran as one of the verses mentions, “Believers, when you contract a debt for a fixed period, put it in writing. Let a scribe write it down fairly...and let the debtor dictate, not diminishing the sum he owes...”(Ali, 2009).

On the other hand, Lewis (2001) has also discussed other concepts in accounting such as full disclosure, records, reliability, periodicity, assets and liability in the Quran as a basis to link Islam and accounting. All of these have created a strong foundation for Islamic accounting research and have instilled the motivation to pursue it. Next, the empirical research with regards to Islamic banking social reporting will be explained.

3.5.4. Advancement of Social Reporting Research in Islamic Bank

In terms of the empirical research in Islamic accounting, a study by Maali et al. (2006) was the first one to explore the social reporting of Islamic banks empirically, with a sample of 29 Islamic banks across 16 countries. They employed a content analysis as their research method. The study found that Islamic banks in their sample fell significantly short in their social disclosure, where the banks disclosed more when the bank paid zakat (Islamic levy on business).

Early literature has mainly discussed the search for ideal concepts and philosophical ideas for the Islamic accounting area, such as in Baydoun and Willett (2000) and Lewis (2001). However, as time progressed, Haniffa and Hudaib (2007) came out with the advanced research of an ethical index containing 78 items compared to the disclosure index of Maali et al. (2006) which contained only 30 items. The study concentrated on the Gulf region compared to the more diversified sample in Maali et al. (2006). The use of the normal “disclosure index” compared to the “ethical index” name in Haniffa and Hudaib (2007) also portrayed and signalled more moral value for the research. Since Maali et al. (2006) and Haniffa and Hudaib (2007) introduced an index to the literature, the majority of later research has made references and has built indexes based on that foundation.

On top of that, critical accounting research (Kamla, 2009, Kamla, 2007) has complimented the empirical research and again reiterated the importance of social accounting in adhering to its content, motivation and main drives. It is argued that social accounting and reporting by Islamic banks, in most situations, concentrates on the “telling of the good news and countering the bad news” (Kamla, 2007), and this is in line with the findings of Maali et al. (2006) where Islamic banks will normally not disclose information which will attract criticism towards the bank and jeopardise the bank’s reputation.

Furthermore, studies on social disclosure in the Islamic banking area move further by having more sophisticated analysis with a large number of Islamic banks involved, for instance in Mallin et al. (2014). Moreover, in terms of time frame, Belal et al. (2014) set a record by deeply analysing the Islamic banks’ social disclosure over 28 years. Both of these are important and significant contributions to the literature and both have their own unique criteria of research. Belal et al. (2014) constructed a massive disclosure index containing 149 items across 16 categories. However, only one Islamic bank was involved. In addition, even though Mallin et al. (2014) involved a number of Islamic banks, there were only 84 items in the index compared to the 149 items in (Belal et al., 2014). Furthermore, this thesis will differ by addressing 7 dimensions and 20 themes with 155 items from the literature and prominent bodies while considering two prominent models of Islamic banks in the world as a sample. In the next section, the summary of the important literature in Islamic accounting will be presented.

3.6. Prior Research that Employ Content Analyses

Content analysis has been a common tool in the research area of Islamic bank social disclosure. In the literature of Islamic banking and Islamic social reporting, Belal et al. (2014) used a content analysis in their research with 149 indexes. On the other hand, Mallin et al. (2014) combined a content analysis with Maali et al. (2006) and Haniffa and Hudaib (2007) indexes pairing them with a regression analysis. In another study done by Amalina Wan Abdullah et al. (2013), with a focus on Indonesia and Malaysia, Islamic banks also used the content analysis to analyse the Shariah disclosure of Islamic banks. Meanwhile, Kamla and Rammal (2013) used the content analysis with a critical theory and critique, where the style deviated from other studies.

Content analysis is much more dominant in the conventional social and environmental reporting literature, for instance in Abbott and Monsen (1979) in the 1970s. In addition, a few prominent authors that utilise the content analysis like Deegan and Shelly (2014), Campbell (2000), Beck et al. (2010), Adams Carol and Whelan Glen (2009), Beattie et al. (2004), Milne and Adler (1999), Marston and Shrives (1991), and Wiseman (1982) have vastly contributed to the literature on business ethics and the sustainability of social and environmental issues. Furthermore, the dominant role of the content analysis in the area of social reporting has been advocated by Gray et al. (1995a).

Moving on, the importance of graphic related disclosure in the content analysis has been highlighted by the conventional literature as an important aspect of content analysis (Yin, 2005, Beattie and Jones, 2002, Preston et al., 1996). However, no literature in Islamic social reporting makes separate findings for graphic disclosure and highlights the importance of graphic properties findings as a distinct element in the disclosure (choosing instead to combine these with narrative disclosure instead). Nevertheless, there is research that specifically studies images disclosed in the annual report, such as in Kamla and Roberts (2010). However, this study was not related to Islamic banks but was related to companies that operate in the environment of Islamic countries. In being critical, Kamla and Roberts

(2010) made close readings on the visual images published in the annual report and found that images do portray the Islamic values of a company. Apart from that, there are a number of studies that include images. Researchers of social reporting in Islamic banks, for instance in Maali et al. (2006) and Haniffa and Hudaib (2007), have studied narratives and graphics in their content analyses without segregation of the two elements. However, none of the studies above have detached the graphics and provided separate statistics in their findings.

Furthermore, most of the research does not separate the outcome of the image disclosure. Rather, they include it as part of the whole value of the disclosure. Moreover, the use of graphics has not been integrated with the “3 level coding”, which will be done in this thesis. Therefore, this opens the opportunity for this thesis to study the images and graphic disclosure concentrating on Islamic banks in order to see how graphics have been utilised as a tool for portraying Islamic values and other social disclosure-related themes in this thesis.

The above discussion is supported by Kamla and Roberts (2010) where Islamic images of prayer houses and Islamic art demonstrate the company’s wisdom and show their concern towards religious and Islamic ideology. Islamic finance institutions have created a distinct character and have strengthened their Islamic identity (Khan, 2010), and this is a significant motivation for the Islamic bank’s tendency to use Islamic motifs and graphics to portray their Islamic business values. This segregation can be a potential extension towards current literature in Islamic accounting research.

Having understood the discussion of some important literature that utilises the content analysis, it is important to discuss further the literature gap specifically related to Islamic banking social reporting to appreciate the scarcity of the literature source.

3.7. Literature Gap Specific to the Islamic Social Reporting Area

<i>Authors</i>	<i>Year</i>	<i>Sample Geographical Location</i>	<i>Sample Size & Year</i>	<i>Measure of Disclosure</i>
Maali et al.	(2006)	Islamic Banks around the world	29 (2000)	Disclosure Index consists of 30 items
Haniffa and Hudaib	(2007)	Islamic Banks in Gulf Countries	7 (2002-2004)	Ethical Identity Index consists of 78 Items
Abdul Rahman et al.	(2010)	Islamic Banks in Malaysia	1 (1992-2005)	Adapted Maali Index
Hassan and Harahap	(2010)	Islamic Banks in Bahrain, Bangladesh, Indonesia, Malaysia, Saudi Arabia, Kuwait, UAE	7 (2006)	Adapted Haniffa and Hudaib Index
Farook et al.	(2011)	Islamic Banks around the world	47 (2007)	Adapted Maali Index
Aribi and Gao	(2012)	Islamic Banks in Gulf Countries	21 (2004)	Narrative Disclosure
Belal et al.	(2014)	Islamic Bank in Bangladesh	1 (1983-2010)	Disclosure index consists of 149 items across 16 themes
Mallin et al.	(2014)	Islamic Banks around the world	90 (2010)	Adapted Maali and Haniffa 7 Hudaib Index 84 items
Ali Aribi, Z. and T. Arun (2015)	(2015)	Bahrain	7(2006,2008,2010)	Maali, Haniffa & Hudaib, Kamla, Aribi & Gao
This Thesis	(2018)	Malaysia and Bahrain (Two Prominent Models)	34 (2010-2014)	155 Items across 7 dimension and 20 themes (Adapted Belal et al., Maali, Haniffa & Hudaib, standard from GRI, CSEAR, OECD, IFSB and AAOIFI) Ordinary Index and 3 Level Score

Figure 3.1: Main Literature in Islamic Accounting Gap with the Thesis

The table above provides a summary of the specific literature of social reporting in the Islamic accounting and banking literature. This thesis fills the gap in the literature by having investigated two prominent models of Islamic banks, which are the Malaysian and Bahraini model (Mohd. Yusof and Bahlous, 2013). Furthermore, this study evaluates the SEGE disclosure through 7 dimensions and 20 themes using an ordinary and 3 level disclosure. Moreover, this thesis conducted the disclosure study in 5 years within the stable economic period (2010-2014) as advocated by the National Bureau of Economic Research (2010). In summary, the table above provides a distinct differentiation between the thesis' study and the pertinent literature to the best of its knowledge following the approach of Mallin et al. (2014).

3.8. Conclusion

This chapter provides a review of the appropriate literature concerning social, environmental, and ethical reporting, particularly involving the element of legitimacy and stakeholder as the anchor theory and explanation. The chapter later implies the importance of banks in the role of social responsibility both in action and in reporting, as banks are the source of funding for the majority of vulnerable industries. Therefore, the chapter reviews the social reporting literature related to the banking industry, which has many direct and indirect stakeholders that require responses to the unspoken societal-contract.

Furthermore, the chapter narrows further the scope by discussing the Islamic banking literature related to Islamic accounting that is connected to social reporting to prove the scarcity and shortage of literature and scholarly work on the area. The chapter highlights the gaps in the literature in section 3.7 by quickly summarising the important differentiation of the thesis' study and other prominent studies in the area of Islamic accounting.

In addition, the chapter would like to highlight the possible reason for the failure of prior work in the literature to establish a consistent and conclusive agreement for the Islamic social reporting area. Furthermore, there is no official and workable theoretical foundation for the Islamic accountability model that relates to stakeholders in the literature, except the basic model and argument in Gambling and Karim (1986) and Lewis (2001). Moreover, the literature might fail to address the specific disclosure framework for Islamic banking, which will also be addressed in the next chapter in section 4.3. SEGE Disclosure framework for Islamic banking. Overall, this thesis may provide a new avenue for Islamic accounting literature's advancement by pushing the boundaries of knowledge through the above-mentioned possible gaps. Next, chapter 4 will provide an insight into the theoretical foundation and the disclosure framework of the research.

Chapter 4

(Theoretical Foundation & Disclosure Framework)

CHAPTER 4 THEORETICAL FOUNDATION AND DISCLOSURE FRAMEWORK

4.1. Introduction

Islamic banking is a system that consists of the values of Islamic teachings and the programme of banking structures, where both elements have their own theoretical foundations. Thus, pairing the two elements together is crucial for explaining how the elements mix with each other harmoniously. Furthermore, Islamic social reporting, which is part of the activities of Islamic banking, also shares its theoretical foundations with the system.

In the literature, the treatment of theories seems to be competitive rather than complimentary, and Gray et al. (1995b) argues that this is incorrect. Thus in this research, the complimentary approach for each theory is set as a theoretical foundation for the study. In reality, Islamic banks disclose their social information by incorporating business and corporate principles while upholding the spirit of Islamic values. The thesis argues that the core underlying theories for Islamic social reporting are Islamic accountability theory in an ideal situation, which harmonises with signalling theory as the motivation and medium of communicating their accountability; a wider and broader stakeholder theory definition; and lastly the need to become legitimate and acceptable in the Muslim and Non-Muslim societies where Islamic banks operate.

However, even though Islamic accountability theory is the ideal theory to explain the disclosure for the Islamic banks, the theory has not been fully developed and limited time for the study to develop a comprehensive theory. Therefore, the underlying theories in explaining the social disclosure by Islamic banks in Malaysia and Bahrain in this thesis are **stakeholder** and **legitimacy** theory as the **main theories** to explain the study, paired with **signalling** and **social norms** theory as the supportive theories to further explain the findings.

4.2. Theoretical Foundation of the Study

4.2.1. Definition, Differentiation and Application of Theories

Before narrowing the theories discussion into the theories that are applied in the thesis, it is better to explain **agency** and **institutional** theory as these two theories are also prominent theories in accounting research. Generally, agency theory discusses agency cost and the opportunistic behaviour of the manager as the agent to the organisation shareholder (Deegan and Unerman, 2011). However, due to information failure in between the parties involved, the objective of the financial performance of the company is open to risk (Merkl-Davies, 2007). This is why it is important to understand agency theory as the survival of the company depends on how the economic and financial resources of the company are well managed by the manager. Furthermore, the accounting research using agency theory as an explanation usually relates to the economic incentives view point Campbell (2000). On the other hand, this thesis looks beyond the economic incentives of financial reporting but towards social reporting that involves various stakeholders and societal contracts (Suchman, 1995, Deegan et al., 2002, Cho and Patten, 2007).

It is argued that institutional theory focuses more on environmental and social performance of an organisation and will conform to institutional norms (Merkl-Davies, 2007). The theory also has been widely adapted by accounting scholars (Deegan and Unerman, 2011, Deegan et al., 2007). Even though the theory has helped to gain an understanding of how an organisation chooses its reporting standard and disclosure technique (Adams et al., 2016), the legitimacy of an organisation is a key idea and notion to institutional theory (Duff, 2017). Moreover, legitimacy has an influence on institutional theory and other organisational theories (Haridan et al., 2018, Deegan and Unerman, 2011). Therefore, Suchman (1995) observes legitimacy theory as an anchor to a variety of theoretical expansion.

In this study, two main theories (**legitimacy** and **stakeholder**) will be used as lenses to explain social disclosure by Islamic banks. A brief definition of the theories will be given and also how the theories are perceived in this study will be explained below.

The first theory is legitimacy. Legitimacy theory is important to this study as it is the backbone of a company's objectives to maintain its operation within the boundaries and rules of the society in which it operates (Deegan and Unerman, 2011). In relation to Islamic banks, it is important for Islamic banks to observe these boundaries and rules to legitimately operate and label themselves as Islamic banks. According to Lindblom (1993) (p.2), the definition of legitimacy is "when a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy". In addition, 'legitimacy' is a resource that organisations rely on for survival (Dowling and Pfeffer, 1975, O'Donovan, 2002). Hence, Islamic banks need to adhere to the values and rules embedded in their operating environments to manage legitimacy threats and to continue their operations. In managing legitimacy, the information disclosed to the public is an important factor that establishes corporate legitimacy (Suchman, 1995). Hence, Islamic banks need to strategize effectively their social disclosure towards the public to retain and maintain a good level of legitimacy.

The second theory is stakeholder theory. Stakeholder theory provides a more refined definition of the various groups and numerous social contracts within stakeholder groups (Craig Deegan, 2002). As a result of having numerous groups, there will be a disparity between the powers of each stakeholder group that will shape company behaviour (Deegan and Unerman, 2011). Consequently, the **"high-impact⁶"** stakeholder which has more power compared to the **"low-impact⁷"** stakeholder will have more opportunities to influence company behaviour. On another note, even though stakeholder theory seems to overlap with legitimacy theory, its distinctive features are how the company approaches and interacts with a particular stakeholder (O'Donovan, 2002). In the application of Islamic

⁶ Stakeholders that have more power and influence.

⁷ Stakeholders that have less influence or less power.

banks, since the Islamic bank is obliged to adhere to **'legal-accountability'**⁸ and **'moral accountability'**⁹ (Abdelsalam et al., 2016), the stakeholder approach might explain the difference between the treatments of **'compliance-based'**¹⁰ disclosure and **'spirit-based'**¹¹ disclosure. Obviously, if the disclosure is more 'compliance-based', it signals that Islamic bank disclosure focuses more on legitimising itself to regulators. On the other hand, if the disclosure expands to be 'spirit-based', it signals that Islamic banks are committed to wider stakeholder expectations.

In conclusion, in terms of the explanation of the disclosure, the theoretical perspective of these two theories (legitimacy and stakeholder) is expected to enrich the understanding of social disclosure (Gray et al., 1995b). In this case, the social disclosure of Islamic banks may benefit from the lenses of the two theories.

4.2.2. Stakeholders & Islamic banking Social Contract Relationship

In discussing the social responsibility of an organisation, the relationship between the organisation and the various stakeholders is important to understand. Mainly, the relationship established is based on a social contract embedded in a particular societal value setting (Suchman, 1995, Craig Deegan, 2002). As for Islamic banks, the social contract with stakeholders should ideally respond with a reasonable balance for all stakeholders. This is despite the social contract being hard to define (Deegan and Unerman, 2011). However, for Islamic banks, the Shariah rules are defined precisely from the requirements of a strict restriction on prohibited activities by banks (such as interest bearing mechanisms) to the encouragement of good and positive engagement with wider stakeholders (such as the environment and employees). By right, Islamic banks should take all the requirements from Shariah rules, be they **"compliance-based"** or **"spirit-based"**, to satisfy the social contract established

⁸ Accountability that satisfies the rule of law.

⁹ Accountability that goes beyond the normal legal aspect.

¹⁰ Disclosure merely for compliance reasons.

¹¹ Disclosure that incorporates the spirit behind social, Shariah, ethics, environment and governance or in other words goes beyond compliance.

between Islamic banks and stakeholders. However, in the literature, less attention is given to the **“spirit-based”** social contract, such as in environmental disclosure as advocated by Rizk (2014).

Generally, Islamic banks have various stakeholders, for instance customers, the community, employees, the environment, the government, non-governmental organisations, etc. Islamic banks as part of a religiously-oriented banking system need to take into account their commitment to all stakeholders. The social and obligatory commitment of Islamic banks to all stakeholders mirrors the accountability of Islamic banks to the ultimate stakeholder, God. This is because in Islamic principles, everything originates from God almighty where the ultimate accountability is towards God, the creator of the whole universe (Lewis, 2001). In addition to the adherence to Shariah rules and the encouragement of a positive interaction with **“low-impact”** stakeholders such as the environment, communities and wildlife, Islamic banks are obliged to adhere to **“high-impact”** stakeholders such as regulators and the government, which are the creators of the standards and acts implemented in a particular region where Islamic banks operate.

In this study, there are two distinctive features in viewing stakeholder concepts from the Islamic bank perspective. First, this research treats Shariah Rules as an additional stakeholder. This is simply because Islamic banks need to be compliant with Shariah rules to claim to be Islamic banks. In addition, Islamic banks need to disclose information that belong to **“compliance-based”** and **“spirit-based”** categories to be perceived as ideal Islamic banks. Secondly, this study advocates that Islamic banks have an additional responsibility towards all stakeholders. By having **“moral-accountability”** and **“legal-accountability”** embedded in Shariah rules, Islamic banks are expected to respond and disclose better in their annual reports by taking into account all of the stakeholders’ expectations with a disclosure balanced between the themes and dimensions that represent each stakeholder.

To explain further, **“legal-accountability”** is associated with **“compliance-based”** disclosure while **“moral-accountability”** is represented by **“spirit-based”** disclosure. Furthermore, in relation to legitimacy and stakeholder theories. This study assumes that Islamic banks that disclose more on

“**compliance-based**” disclosure are signalling their legitimacy towards “**high-impact**” stakeholders while Islamic banks that disclose more on “**spirit-based**” disclosure are signalling their commitment towards “**low-impact**” stakeholders. From an ideal perspective, there should be a balance between the disclosure commitment towards low and high impact stakeholders.

Having understood the concept of the social contract that Islamic banks need to address, the next step is to recognise the legitimacy-gap between Islamic banks and societies. Obviously, the legitimacy-gap comes from the disparity between the actions and expectations of the social contract between the organisation and society (Deegan et al., 2002). In the next section, the legitimacy-gap will be defined and explained in light of the Islamic bank environment.

4.2.3. Legitimacy Gap in the Practices of Islamic Bank

In the real world, underperforming social disclosure often causes legitimacy-gaps. This occurs because of the ‘**expectancy gap**¹²’ between an organisation’s actions and society’s expectations (Sethi, 1979). In the case of Islamic banks, society believes Islamic banks are more ethically-oriented rather than business-oriented (Haniffa and Hudaib, 2007). On the other hand, the Islamic bank’s managerial actions and activities are geared more towards a substantial profit-making aspiration (Belal et al., 2014). As a result, a **legitimacy-gap** is inevitable, but this can be managed and reduced by having certain communication strategies which are often taken for granted by Islamic banks. This is despite the fact that legitimacy strategies and approaches can be one of the way to address and subsequently reduce legitimacy-gaps (O’Donovan, 2002). However, this needs to be taken responsibly into consideration by the management in planning communication tactics as part of managing their

¹² The gap of the stakeholders or part of stakeholders’ assumptions or expectations on how Islamic banks should disclose.

company legitimacy (Dowling and Pfeffer, 1975). This is because the level of ethical communication via social disclosure in an Islamic bank's annual report depends on the management of the banks.

Referring to the legitimacy-gap discussed in the previous page, the **'triple E'¹³** disclosure dimensions (Environments, Employees, Ethics) in Islamic banks are the bottom three lowest disclosure results for the current sample, which agrees with previous literature (Rizk, 2014, Belal et al., 2014, Kamla and Rammal, 2013, Haniffa and Hudaib, 2007, Kamla et al., 2006). Since Islamic banks promote shariah-based business, which is usually done by promoting the social and ethical identity of the society (Haniffa and Hudaib, 2007), Islamic banks need to consider reducing the discrepancy of the legitimacy-gap or otherwise the legitimacy-gap will grow as time goes on (Islam and Deegan (2008). This situation can be avoided by enhancing the strategies and tactics used to disclose more information and balance out the expectation of society towards Islamic banks.

However, Islamic banks are also business entities that should aim for profit to sustain their business environment in order to serve society. In doing so, profit should be seen as a reward for doing business activities while at the same time engaging with vital activities that serve social interests (Ali et al., 2013). The societal expectation needs to be addressed via the social disclosure communication of Islamic banks to tame their expectations towards Islamic banks. The duty to balance the disclosure that satisfies the requirements of the regulators and the needs of society depends solely on the top management of the banks carefully managing 'compliance-based' disclosure and 'spirit-based' disclosure as this thesis argues that both are important to be disclosed for an informed society. Consequently, if these two (spirit and compliance-based) disclosures are well balanced and blended in their legitimacy strategies, the legitimacy-gap will no doubt reduce. Subsequently, Islamic banks will be seen by society not just as business entities but also caring entities.

¹³ The Main Themes that are less covered in disclosure by Islamic banks in Malaysia and Bahrain (Environment, Ethic & Employee).

Having understood the legitimacy-gap discussed in the last three paragraphs, specifically how important the legitimacy strategy is to Islamic banks in order to reduce the legitimacy-gap, it is crucial that Islamic banks' actions are parallel to societal expectations and that they disclose information according to societal norms to maintain legitimacy and become relevant over time. In the next section, the supportive theory that will be used as the secondary theory in explaining the disclosure in Islamic banks.

4.2.4. Signalling Theory

Signalling theory is an important theory and concept in social reporting as it is a medium of responding and signalling for Islamic banks. Organisation like Islamic banks will signal their concern on issues related to stakeholders in reducing the legitimacy gap by addressing the values embedded in a particular social contract within society. Signalling theory has been employed as a potential explanation on disclosure practices and was first introduced by Spence (1973).

Moreover, signalling theory has laid the foundation that positive and healthy organisations are likely to disclose more information as compared to negative or unhealthy companies (Ross, 1979). In relation to the thesis, an assumption can be made that Islamic banks that disclose more information are likely to be banks that perform well as compared to those with less disclosure.

However, when the information does not cost anything to the signaller, the manager would most likely disclose performant and less performant information to the stakeholder as stakeholders usually interpret non-disclosure as a negative assumption (Grossman, 1981). In other circumstances, companies might disclose both good and bad news as good news may signal the quality of the company while bad news is signalled to reduce the effect of reputational cost for non-disclosure in a designated time (Skinner, 1994). Nevertheless, the management of the company is free to choose a non-disclosure strategy. In application to this thesis, it is assumed that Islamic banks will signal their commitment to society through SEGE disclosure according to specific themes. Therefore, the

commitment of Islamic banks towards specific themes and dimensions can be measured by observing the disclosure it signals in the annual report.

4.2.5. Social Norms as the Basis of the underpinning Disclosure Commitments

Administrations and organisations have a majority of the work force consisting of people influenced by the same set of social norms. They may prefer to act and conform to the social norms of the group (Kohlberg, 1984) and, in this thesis' case, the particular countries' social norms. These social norms spread and are strengthened by the way they are instilled, which is normally through the learning and transmission of values through a hands-on or heuristic approach (Reno et al., 1993). In this thesis, religiosity is regarded as a social norm that influences the Islamic bank's social disclosure, coinciding with the role of Islamic banking as a religious-based banking system. The disclosure is predicted and assumed to be influenced by the country's religious approach apart from the regulatory quality that will also affect the disclosure, as regulatory quality is shaped closely by social norms that are moulded through society's administrative system.

Moreover, Brammer et al. (2007) argues that ethical decisions depend on the embedded values of the corporation and this further supports the idea of the workforce or the personnel that work in the Islamic banks that are already shaped by the values of the social norms where the Islamic banks operate. This may motivate the reaction and response to the social disclosure commitment as it is the same motivation based on the ethical and religious ideology that is shaped by the social norms of the society which the employees and managers belong to. Therefore, this thesis argues that the society's social norms (religiosity-regulatory commitment) play an important role in shaping the commitment of the social reporting in an Islamic bank.

The countries under investigation have geographical and cultural differences even though both are Islamic countries and recognise Islamic banking. However, the two have completely different models of Islamic banks and approaches (Mohd. Yusof and Bahlous, 2013). These differences may be driven

by differences in the particular society's social norms that contribute to how the Islamic banks approach social reporting, which is managed by the manager and other personnel in the Islamic bank. The society outside the banks, the stakeholders, is also moulded by the social norms in the area where they belong. Therefore, whether they are high influence and sensitive stakeholders or not, the values are likely to influence the social reporting practices.

Furthermore, the values of the whole country (that are constructed from the religious orientation, social construct and regulatory-administrative quality) are linked to the social norms that are dominant in a particular area or a country. This discussion will be elaborated upon further in chapter 8 in figure 8.1: Malaysia & Bahrain Context.

The next section will discuss the Islamic Bank SEGE Disclosure Framework. This includes suggesting the ideal process for how Islamic banks should disclose their social disclosure and how the legitimacy and stakeholder theory fit in with different approaches to the disclosure initiative. The process will further explain the approach that needs to be considered by Islamic bank management to provide sound social disclosure to all levels of society.

4.3. SEGE Disclosure Framework for Islamic Bank

The SEGE disclosure framework is another contribution of the thesis to the body of literature as no framework has been introduced by the literature specifically for Islamic banking social reporting (*see appendix 1: SEGE Disclosure Framework*). The SEGE Disclosure Framework provides insight into how human resources, as the starting point of disclosure, go all the way to theory classification to the strategy of disclosure and how the cycle of the framework goes back to the board of directors through a sensitive society's feedback.

A good and sound process flow is important to any strategic activity that involves and affects many entities. In addition, while Shariah rules encourage better responses to other stakeholder needs, clear motives and processes need to be clearly informed to the executive-managerial level who are involved in the disclosure production of annual reports or any other means of disclosure such as websites and newspaper releases. Moving further, this section will explain in detail how this thesis will use the theories involved. Initially, the social disclosure that is disclosed by Islamic banks will be decided by the Islamic bank's manager. Ideally, the manager would take into consideration a balanced mixture of Shariah, Social, Ethics, Governance and Environment (SEGE) themes for a disclosure to be considered decent. Furthermore, having considered the SEGE themes, banks, as operators, need to disclose information that satisfy the **"operator-regulator"¹⁴** and the **"operator-creation"¹⁵** relationship. Moreover, by fulfilling these two criteria, in an ideal world, Islamic banks will satisfy all stakeholders and thus publish a balanced disclosure with all the SEGE themes. As a result, Islamic banks will disclose good social disclosure through various channels of the disclosure medium.

Preferably, the managers in Islamic banks should be accountable to the organisation and to the public, and this constitutes managerial accountability and public accountability. Furthermore, with the two accountabilities in place, the manager of Islamic banks will have to comply with the shariah-principle

¹⁴ The disclosure that merely satisfies the relationship between Islamic banks and its regulator.

¹⁵ The disclosure that considers the other stakeholders (God's other creations).

and the shariah-spirit in order to produce a balanced disclosure to the public. In fact, when all these criteria have been fully met, Islamic banks may produce a disclosure which will signal their commitment towards all 'high-impact' and 'low-impact' stakeholders. A balanced mixture of 'compliance-based' and 'spirit-based' disclosure is important to be disclosed in mainstream and non-mainstream channels of disclosure to ensure that 'sensitive societies' are aware and are able to provide responses negatively or positively to Islamic bank managers for them to improve and progress further. However, it is recommended that Islamic banks disclose more in their annual report as compared to other easy perishable channels as it is an official document that publishes consistently (Gray et al. (1995a) and is used by many researchers in Islamic banking literature as a basis for the evaluation of social responsibility disclosure (Ali Aribi and Arun, 2015, Mallin et al., 2014, Belal et al., 2014, Amalina Wan Abdullah et al., 2013, Kamla and Roberts, 2010, Aribi and Gao, 2010, Haniffa and Hudaib, 2007, Maali et al., 2006).

However, in contrast to the ideal world, the situation may be different from what is expected. This has been proven by the findings of the social disclosure in the findings part of the thesis. These findings are different compared to the ideal expectation. The Islamic banks concentrate more on 'compliance-based' disclosure, which may be explained by the managerial-branch of the stakeholder theory lens. The details of the findings are illustrated within "chapter 6 and 7" in the later chapter. This process flow promotes an understanding of Islamic bank management in terms of theories of understanding and the initial concept of applied accountability to all stakeholders. As a result of this understanding and the implementation of a sound disclosure framework, there is no doubt that the disclosure for Islamic banks will better respond to and balance all stakeholder needs.

The disclosure also needs to be strategised using the proper medium at the right time, where the medium can be classified as a '**perishable medium**¹⁶' or '**non-perishable medium**¹⁷'. Normally, the

¹⁶ Disclosure mediums that easily fade in time and are easily altered, e.g. websites and social media postings.

¹⁷ Disclosure mediums that last for a long time and are not easily altered, e.g. hard and soft copy annual reports and newspaper releases.

perishable medium has the luxury of having more and better coverage like website and social media tools while non-perishable mediums of disclosure normally have less coverage and are normally popular among researchers, investors and shareholders. Islamic banks need to use the channels of disclosure as effectively and as efficiently as possible to deliver the right information in the right channels and time. For instance, information or disclosure that needs faster and greater coverage can be published through websites and social media tools while information and disclosure that the Islamic banks want to hold the value against time could be published in the annual report.

Furthermore, it is possible that this disclosure framework and process flow can be used as a guideline for training in the Islamic banking sector. This social disclosure training is best used for covering different units of the bank such as the board of directors, corporate communications department, public relations department, and the annual report production units which are attached to the bank or as a consultant company to the Islamic bank. By promoting this framework and process flow, it is hoped that Islamic banks will achieve positive and balanced legal and moral obligation disclosure as a business and ethical entity.

In the disclosure framework for Islamic banks, there is an accountability value known as 'managerial accountability' and 'public accountability'. This thesis is trying to explore the accountability framework and accountability theory for Islamic banks specifically as the accountability for Islamic banks is quite different from conventional accountability. In the accountability concept in Islam, God is the ultimate goal for accountability.

Moreover, it is important to discuss the theory involved in the proposed Islamic banking disclosure framework. The first theory that enters the framework is that accountability is shaped by the Islamic concept, as informed in the last paragraph. Human resources will bring the idea of SEGE disclosure in their screening of Islamic accountability values. Ideally, the combination of '**shariah-principle¹⁸**' and

¹⁸ Act that only satisfies the rules and guidelines of procedure in Islamic law.

'**shariah-spirit**¹⁹' will bring disclosure into an ethical stakeholder theory point of view and this unified disclosure theme will later be signalled to the stakeholders using various strategies and mediums ranging from greater coverage to lower exposure.

Furthermore, the society then will decide and respond towards information from the various channels with **positive**²⁰ and **negative**²¹ modes of responses to the human resources of the banks at a different level. Again, the process will circulate as in the SEGE Disclosure framework (*see appendix 1*) and the outcome of the disclosure will be different according to the approaches taken by the human resources in the Islamic bank.

Therefore, it is ideal that Islamic banks embed this disclosure framework into its practice and portray its commitment towards social disclosure practice. Furthermore, the framework will help the disclosure process and identify opportunities and threats to be managed accordingly.

4.4. Conclusion

The discussion of theories in this chapter will give a direction on how the theories affect the study. Furthermore, the theories help to plan and forecast the possible explanation of the findings outcome of the thesis. Based on the discussion on all of the sections that relate to legitimacy and stakeholder theory in chapter 4, it can be concluded that legitimacy theory's nature of survival, which in this thesis is classified as "legitimacy survival", is integrated with the "important interested party" in the stakeholder theory regime. Consequently, this makes these two theories a necessity to any

¹⁹ Act that takes into consideration the deeper objective of Islamic law and obliges kindness to a wider stakeholder.

²⁰ Feedback/Signals/Inform/Responses

²¹ Complaints/criticisms/Whistle blowers

organisation before the organisation progresses further into theories of other branches of societal and ethical values such as stakeholder-accountability theory.

Moreover, in general, the typical motive of a capitalist company or organisation is to maximise shareholder value. Therefore, in order to achieve that objective, the company management needs to observe and pay attention to the “important interested party”. For example, these include laws and legal regulators, policy makers, non-governmental organisations, and related sensitive parties. The Islamic bank, however, needs to seek agreement with the “important interested party”, for instance the central bank, in order to achieve “legitimacy survival” to accomplish the company’s objectives.

Furthermore, after satisfying legitimacy by adhering to or fulfilling the best of societal contracts among powerful stakeholders (Gray et al., 1996a), Islamic banks as organisations subsequently need to address the expectations and issues concerning a wider community of stakeholders in a fair manner (Deegan and Unerman, 2011). This is despite some assumptions on social responsibility initiatives as being a form of prearranged socialism that takes a company’s wealth for the stakeholder via social responsibility initiatives (Jensen, 2001). Nevertheless, greater social initiatives through social reporting will always be an instrument to balance the capitalist pyramid structure. The importance of the ethical and managerial branch of stakeholders is inevitable to be practiced by Islamic banks in their disclosure and to be further put into practice. Moreover, if the disclosure findings are later found to be more on ethics, environmental and social, the theoretical explanation may focus more on stakeholder theory.

In summary, for the theoretical foundation and SEGE disclosure framework chapter, there are four important discussions. **Firstly**, this thesis uses the lenses of stakeholder, legitimacy and signalling theory to explain the social reporting of Islamic banks in Malaysia and Bahrain. **Secondly**, the study introduces the framework for Islamic banking disclosure that can be applied in the academic field and at the industry level. **Lastly**, this chapter provides insight into how the theories work together in

enlightening the social reporting by playing their individual roles in describing the different reasoning and some matching and similar approaches between each theory, despite some differences in position.

Overall, this thesis advocates that, in light of the two main theories of **legitimacy** and **stakeholder** theory, Islamic banks need to satisfy and address influential and dominant stakeholders to maintain legitimacy in order to serve and treat other less powerful stakeholders fairly, properly and objectively. Thus, when Islamic bank disclosure has a greater volume and is better in quality, it is a **signal** that the Islamic banks have entered into, and have made initiatives on, the ethical and managerial stakeholder branch objectively. One important thing to note is whether Islamic banks disclose to signal their legitimacy or signal their accountability towards wider stakeholders will depend on the values and social norms of the geographical area in which the Islamic banks operate, whether they be conservative or progressive (Elster, 2000).

The quality of the disclosure might be subjective and questionable as to whether it is purely or simply green washing or window dressing (Mahoney et al., 2013). Nevertheless, when a bank or organisation reports its social initiative in its annual reporting disclosure, the bank's management at least needs to generate activity that will in one way or another contribute to the social and environmental cause in its circle of operation and within the social-contract context of the banks and the society in which it operates. This would be a good starting point for a more open and transparent social reporting initiative for Islamic bank.

Chapter 5

(Research Design: Philosophy & Methodology)

CHAPTER 5 RESEARCH DESIGN: METHODOLOGY & METHOD

5.1. Introduction

The research design chapter serves as the foundation of the mechanism for how the research is properly conducted. Furthermore, reviewing the relevant literature and outlining the methodological framework for the thesis assists in making proper decisions in understanding the methodology and constructing feasible methods appropriate to the research design. Built on legitimacy and stakeholder theory, the main objective of this study is to empirically investigate and compare the social disclosure of Islamic banks in Malaysia and Bahrain.

This chapter outlines and explains in detail the methodological aspect employed by the thesis in order to address the research objective and answer the research question. Moreover, it starts with an explanation of the research philosophy and the methodological standpoint of the research. In addition, this viewpoint will further determine and verify the method employed to extract information, which is then used for investigations and analysis according to the research objectives. Furthermore, after identifying the philosophical assumption and standpoint, the research design then provides a description of the research method employed.

This chapter will then explain in detail the architecture of the hybrid content analysis and the 7 dimensions and 20 themes involved in the content analysis. Moreover, the ordinary and quality content analysis score will be explained in detail. This chapter will provide a systematic process of the procedure employed in the thesis. These include the information and the calculation of the checklist in the ordinary disclosure index and the 3 level coding for the quality disclosure score.

5.2. Research Philosophy

The methodology section will explain the philosophical research stance of the thesis on how the thesis is organised in observing the worldview on the social science paradigm. This is important to make sure that the researcher understands the position and viewpoint of the research area and to make sure that the method that will be used in the procedure fits the social paradigm.

5.2.1. Philosophical Assumption & Methodological of Social Science Nature

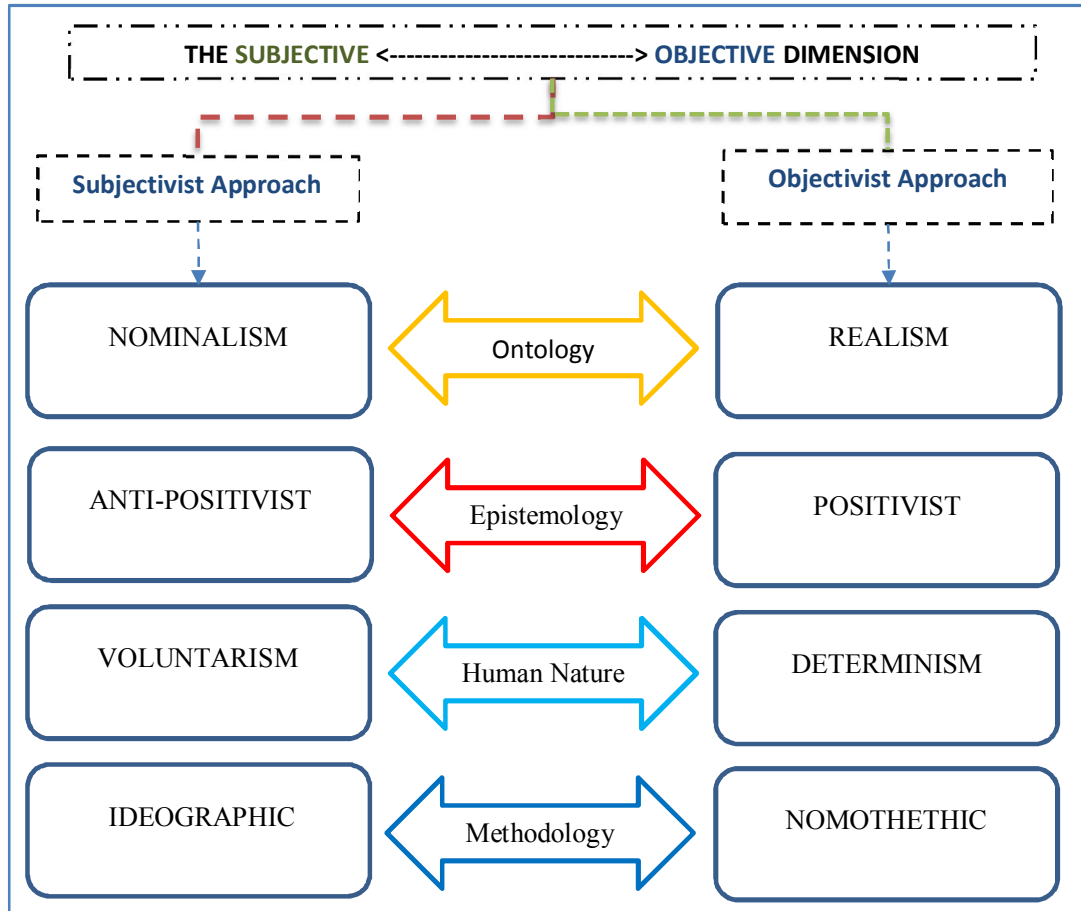


Figure 5.1: A scheme of analysing assumptions about the nature of social science (Develop from Burrell & Morgan 1979 pg.3)

The information inside the figure above is important to this research in understanding the research stance from the philosophical aspect. Moving further, referring to the figure above, the philosophical assumption of the social sciences is generally divided into two main streams, namely the objectivist and subjectivist streams. Moreover, the subjectivist or objectivist approach of the research will be determined based on the four assumptions of social science. In addition, under each main stream the

researcher should understand the standpoint of the worldview through the ontology (realism vs Idealism), epistemology (positivism vs anti-positivism), human nature (determinism vs voluntarism), and methodology (nomothetic vs ideographic) aspects as advocated by Burrell and Morgan (1979) and later Morgan and Smircich (1980). A detailed discussion and how it relates and applies to this thesis will be provided in the specific section of each classification of the assumption on the nature of social science. For example, such as in the thesis' identification of a suitable methodology through the research philosophy and its relation to the application of the thesis' theoretical framework.

5.2.2. Ontology

As introduced by Burrell and Morgan (1979), there are two different values in the ontological perspective in positioning the ontology aspect, namely realism and nominalism. This thesis advocates the objectivist approach, which employs the understanding of the realist ontological assumption. This is because this study employs a structured scientific method that is based on the belief of physical realism and that human beings exist independently from reality as explained by Chua (1988).

Furthermore, to comprehend the standpoint, realism is what researchers sense in reality and is the view that the social world is made up of real and tangible structures (Saunders Mark et al., 2011). However, distinct to realism, nominalism advocates that there is no real structure to the real world are they are merely concepts residing in one's mind (Burrell and Morgan, 1979). This study focuses on the Islamic bank that is governed by law and the central bank and involves the annual report, all of which are structured and tangible entities that shape an understanding of reality. Moreover, the content analysis method is done through a tangible process that includes examining documents, manuscripts, newspapers and other such items that are shaped by the real, structured world.

In summary, for the ontological aspect, this thesis follows the realist approach of ontology in understanding the social world. From looking at the literature, much mainstream accounting research is dominated by the positivist paradigm (Locke and Lowe, 2008). However, even though this research and much mainstream accounting research is based on the positivist paradigm, the spirit of paradigm

debates nevertheless needs to be kept alive to foster and promote open scholarship and multi-dimensional strings of thought as argued by Lukka (2010).

5.2.3. Epistemology

Moving further, epistemology fundamentally questions how knowledge can be acquired while some have defined epistemology as the assumption of what establishes the knowledge of social reality (Blaikie, 2007). Simply put, it can be described as the theory and concept of knowledge (Marsh and Stoker, 2002). However, this thesis explores epistemology through the lenses of Burrell and Morgan (1979) position through a positivist approach rather than an anti-positivist approach. Furthermore, this thesis acquires knowledge by means of secondary data (positivist approach), for instance through information from the annual report rather than through knowledge that needs to be personally experienced (anti-positivist), for instance experiencing being the annual report preparer's manager.

Furthermore, the positivist approach seeks to grasp explanations and forecasts happenings in the social world through an exploration of the uniformities and underlying relations between its constituent components (Burrell and Morgan, 1992). Furthermore, theories are important in developing examinable hypotheses for the research. Moreover, the hypotheses are then tested using the chosen deductive approach. Accordingly, the role of the research is to test and explain the theories and further develop these theories if possible (Saunders Mark et al., 2011). In this thesis, the research will be based on, and be explained by, the relevant theories (stakeholder and legitimacy).

Overall, for epistemology, this thesis is still consistent in the objectivist approach under the objective dimension under the assumption scheme of social science and stands under the positivist position.

5.2.4. Methodological Approach

Methodology under the assumption of social science introduced by Burrell and Morgan (1979) is concerned with the methods employed to investigate and study the social world through two distinct methodological lenses which are, namely, the nomothetic and ideographic perspective. The nomothetic is concerned with and emphasises on a systematic protocol, approach and technique in conducting research while the ideographic supports the idea that knowledge or information should be obtained first hand (Burrell and Morgan, 1979). Relating to this research, methodologically, this thesis adopts the nomothetic standpoint where a systematic content analysis is employed and involves hypothetical-deductive approach estimations to test hypotheses.

The decision in choosing a methodology is directly related to the researcher's ontological, epistemological and human nature assumptions. Referring to the figure on the nature of social science by Burrell and Morgan (1979), the philosophical assumption of social science discussed previously is prone to the objectivist position and approach. Furthermore, the inclination of the trend of ontology, epistemology and human nature towards objectivism signals that this thesis prospectively employs a nomothetic methodology. However, in determining the research paradigm, this thesis positions itself into one paradigm that will be explained further in the next paragraph based on the figure in the next page.

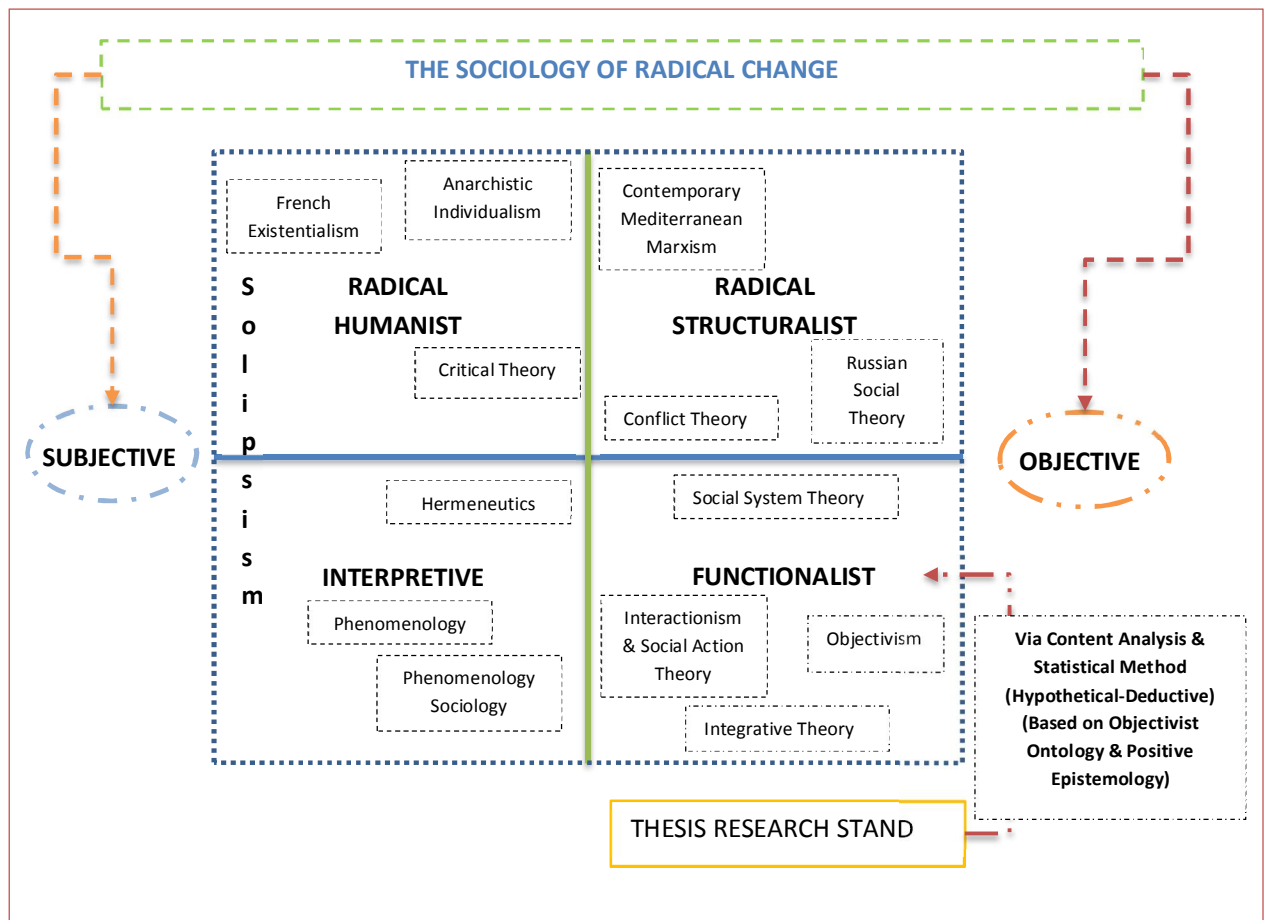


Figure 5.2: Four Paradigms for the Analysis of Social Science (Developed from Burrell & Morgan 1979 pg.29)

Having discussed the four dimensions with regards to the nature of social science, there are two more important concepts and assumptions in the nature of society. Namely, the 'radical change' that assumes how organisations should be conducted through a critical perspective and 'regulation' that explains how organisations are regulated while being less critical and judgemental (Saunders Mark et al., 2011). Based on these assumptions, the paradigm of the research can be determined based on the objective and subjective dimension combined with the assumption of society. Therefore, after considering the previous discussions, the research stands on the functionalist paradigm. As advocated by Burrell and Morgan (1979), the functionalist paradigm tries to find a rational explanation for social affairs. Furthermore, in relation to this thesis, the researcher tries to find rational explanations for social disclosure by Islamic banks based on the theory's assumption with a practical method to explain

a practical problem in a an objectivist environment. In the next section, the research onion will simplify the process of understanding the research philosophy and the research design.

5.2.5. Application of Research Onion to the Research

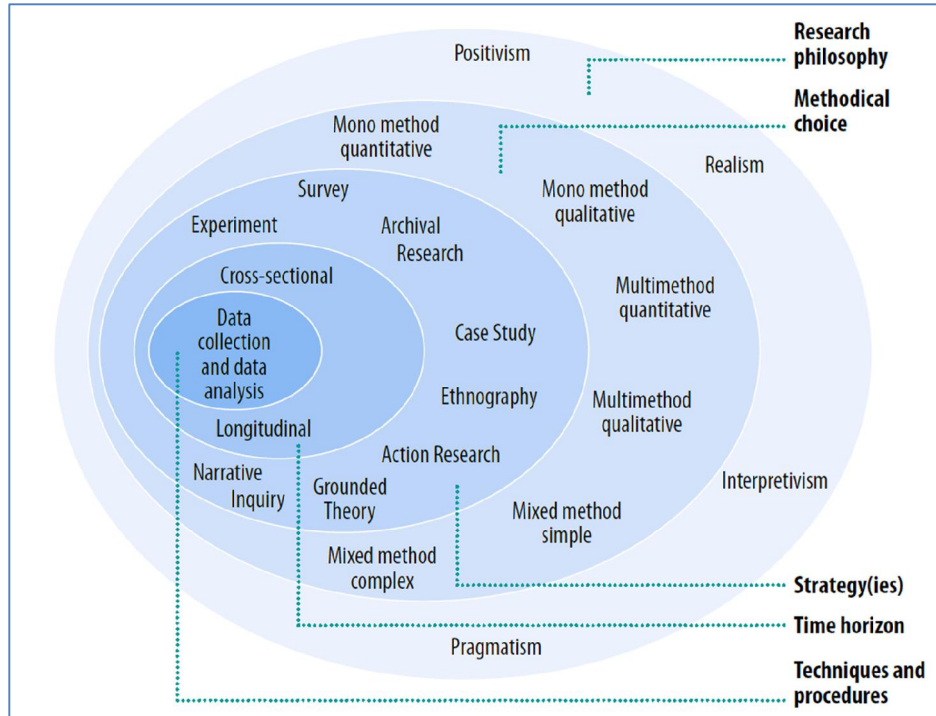


Figure 5.3: Research Onion (Source: Saunders and Tosey 2012, pg. 108)

The figure above provides a summary of the research design layer from philosophical assumption to data collection and analysis in a simple visual representation. Saunders and Tosey (2012) research onion above is an updated version of the one in Saunders Mark et al. (2011) that is much more accurate. In relation to this thesis, the '**research philosophy**' adopts the realism approach and applies the '**mono-method**'. Moreover, the '**strategy**' employed is a content analysis with statistical analysis. The research '**time horizon**' is a panel with a longitudinal year and various banks, and the '**data collection & data analysis**' uses conventional content analysis data recording tools (*Microsoft Word-Thematic Sheet, Microsoft Excel-Thematic Checklist*), qualitative tools (*NVivo*), and a Statistical Package (*Stata*). The result is then presented and discussed in the findings of the thesis.

5.3. Research Method

Having understood the philosophical context behind the methodology and having recognised the position of the paradigm through the methodological aspect of the research in the methodology section, the research method will then discuss the technical aspect of the method that will be utilised in extracting and analysing the information by this thesis. The research method section will heavily discuss the content analysis as part of the dominant technique as it is argued to be suitable for social accounting and corporate social responsibility research (Gray et al., 1995a).

5.3.1. Overview to Hybrid Content Analysis

In this research, a mono-method is employed to extract data from the annual report through content analysis techniques. However, the **multi-recording** tools used to extract information from annual reports include a Microsoft word thematic sheet, Microsoft excel thematic checklist, and qualitative tool software (NVivo). This research argues that multi-recording tools make a hybrid content analysis. Conventionally, researchers have only utilised one recording tool when undertaking the content analysis. For example a checklist sheet that then turns into an index or a thematic recording sheet to get information for qualitative purposes. Nevertheless, this thesis employs the multi-recording method to obtain several outcomes that will be explained later.

Furthermore, the content analysis has been widely utilised by researchers with regards to social reporting research, and this is not only limited to Islamic banks but to other organisations as well. For instance, Mallin et al. (2014) used a content analysis combined with a regression analysis in their study of the disclosure of Islamic banks while Linsley and Shrives (2006) used a content analysis in analysing risk reporting in UK companies.

Moreover, many studies related to Islamic bank disclosure often employ content analyses (Belal et al., 2014, Kamla and Rammal, 2013, Amalina Wan Abdullah et al., 2013, Farook et al., 2011, Haniffa and Hudaib, 2007, Maali et al., 2006). Such studies have employed content analyses as one of their methods and this strengthens the position of the thesis' research method stance.

5.3.2. The Architecture of Hybrid Content Analysis

The hybrid method consists of **three** main recording tools, namely '*Microsoft word-thematic sheet*', '*Microsoft excel thematic checklist*' and '*qualitative tool software (NVivo)*'. These three mediums are used to record the data extraction from the annual report at the same time parallel to each other. The mechanisms will be elaborated upon in detail in the next few paragraphs.

Firstly, this research uses a manual Word sheet with the '**3 level coding**' inspired by Botosan (1997) and later extended by Beck et al. (2010). However, this thesis extends the idea with the added value of a graphic with a greater spectrum based on 7 dimensions and 20 themes, which provides a greater extension to the previous literature (see appendix 2). Moreover, the different coding spectrum procedures make this thesis distinct to the previous literature while maintaining the same essence of the differentiation by three categories (see appendix 3). Furthermore, the format of the '**3 Level Working Sheet**' will assist future research to use and develop their own working sheets suitable to their research objective.

Moving further, the '**3 Level Coding**' procedure will produce both volume and percentage results for each bank per year, which then turns into the average score for five years and a combination of certain banks will produce results for countries. The '**3 level coding percentage**' also constitutes the **Quality disclosure score** which is presented in the findings and analysis chapter 6. The formula for the quality score derived from the '**3 Level Coding**' process is explained in section 5.3.6, Quality Content Analysis Score. These scores are later compared to the ordinary score which is derived from the '*Microsoft excel thematic checklist*' that will be elaborated upon in the next paragraph.

Secondly, this thesis extends the checklist inspired and derived from Belal et al. (2014), Haniffa and Hudaib (2007), and Maali et al. (2006). Moreover, some checklist items are derived from the Global Reporting Initiative standard G4; however, this standard has been updated to a different format consisting of the GRI 300 Environment Standard (2016) and the GRI 400 Social Standard (2016). Furthermore, social responsibility guidelines in the Accounting and Auditing Organisation for Islamic

Financial Institutions (AAOIFI, 2010), Centre for Social and Environmental Research (CSEAR 1991), Organisation for Economic Co-operation and Development (OECD 2011), Equator Principle 2013 and Islamic Financial Services Board (IFSB 2006) are among the guidelines incorporated by the decision rules of the checklist items.

Overall, there are **155-checklist** items derived from reputable literature and bodies. These checklist items are later formatted into an excel sheet (see appendix 6) and the annual report is scored using the '*Microsoft excel thematic checklist*' to get the index score by bank per year and to later transform this into the average for countries and years. The index produced in this process is classified as an **Ordinary disclosure index** as the score approaches a binary of (1) for disclosure and (0) for non-disclosure. Likewise, the score will be presented on its own and will be compared to the quality score which is gathered using the 3-Level scoring method explained before and this will be further detailed in section '*5.3.6 Quality content analysis score*'.

The third and the last is the use of the qualitative tool software (NVivo) software to help with the data recording and the data management of the content analysis. The NVivo software is a reputable software in qualitative research; however, the software is scarce in the social reporting literature as a tool in methodology. In this research, NVivo is utilised to achieve the maximum result that can be processed by NVivo as there are certain packages of analysis tools that are only available in NVivo that are beneficial to be utilised and presented in the findings chapters, for instance see section 6.4.9. *Similarity of Disclosure between Islamic Banks (Malaysia Vs Bahrain)*. Nevertheless, many others findings are well analysed and presented using Microsoft Excel, Microsoft Word, and Stata.

The usefulness of the combination of these extraction mediums and tools is that they ensure that the data collection is properly and structurally extracted from the annual report. These results can then be crosschecked and compared to each other to ensure the coding work has been done properly and procedurally. Each medium serves the same purpose of analysing objectives but has different ways of doing it. All the three mediums share the same dimension and themes.

Furthermore, the use of these different mediums of recording will help reach the research objectives but in different spectrums. What this means is that with the '3 level coding', the analysis will be able to obtain a deeper interpretation (Quality & commitment) while these results can then be compared to the extended checklist (Ordinary score). The question that then can be asked is "Do Islamic banks that commit in their disclosure via the extended checklist method also perform in their disclosure in the '3 level coding' method? If there is, why?" This type of finding is presented and discussed in section "6.3.3. Top 10 Performer of Ordinary SEGE and Quality SEGE" and in section "6.4.4. Country's Top 10 Performing Bank in Ordinary & Quality SEGE Disclosure". Moreover, the segregation of the 'graphic' property of the disclosure will be one of the distinctive features in this unique content analysis architecture and these findings are presented and discussed in section "6.4.5. Graphic Utilisation by the Countries".

Moreover, the introduction of this **double-backed** content analysis (Excel Sheet & Words Sheet) is to provide the literature with an extended view on the methodology chosen in content analysis research. This is because, normally, the content analysis is paired with other types of methods. For instance with an interview in Belal et al. (2014) and a quantitative method in Mallin et al. (2014). However, in this analysis, a content analysis is paired with another form of content analysis. In addition, this double-backed content analysis can also serve as the highest form of reliability assessment, which is "**accuracy level**" as advocated by Krippendorff (2012). As for this thesis, the official reliability assessment for this thesis is currently under "**replicability level**", as discussed further in the next subsection, "5.3.3. Reliability Assurance in Content Analysis"

5.3.3. Reliability Assurance in Content Analysis

As discussed previously, content analysis is about the organised and systematic reading of texts, symbols and images (Krippendorff, 2012). The content analysis is a tool that has been widely used in social accounting studies (Gray, 2001, Abbott and Monsen, 1979). Nevertheless, the content analysis needs to be consistent and reliable throughout the process. Furthermore, the reliability is important in conducting a content analysis to ensure that the coding system is systematic and can be replicated by other researchers.

This thesis employs **four** measures to ensure the reliability, replicability and the consistency of the content analysis. In ensuring this, **firstly**, the content analysis checklist (Microsoft-excel) and the three-level structure sheet (Microsoft Word) was used by the researcher to code one annual report twice at different dates at the initial stage. This is to ensure that the researcher understands the process and the procedure of the coding.

Secondly, the test for inter-coder reliability is conducted by having another coder, with the same academic background and experience in content analysis, conduct a content analysis on a one-year annual report, which is then compared to the researcher's result. Moreover, to test and enhance inter-coder reliability, the same content analysis checklist and the three-level structure is given to another coder who is not from an academic background and has no experience in content analysis to conduct the content analysis. This is done to see whether the instructions are clear and communicable.

However, the coder was given a one-day training session with the researcher prior to the analysis. The coder information was kept anonymous due to the confidentiality of information and only general information was provided. The result of the replicability assessment of the content analysis method is as described in the table on the next page.

#	Information	Attributes	Similarity
1	Name: Classified Gender: Male Occupation: Senior Lecturer at Public University Education Level: PhD	1)Training provided 2)Has Experience	100%
2	Name: Classified Gender: Female Occupation: Medical Doctor Education Level: Master Degree	1)Training Provided 2) No Experience	98.6%

Table 5.1: Coder Information

The first coder had a 100 % similarity rate. However, the deficiency in the second coder's rating was mainly due to miss-view (lack of concentration) and **not** from a misunderstanding of the structure and instruction of the checklist provided. The deficiency was then discussed with the second coder and the coder then completely understood the process structure and the checklist although they had missed it due to a lack of concentration.

The method employed in this thesis has gone through the reliability assessment and satisfies the three conditions underlined by Krippendorff (2012) below:-

- 1) Employ a clear, formulated and workable transmittable instruction.
- 2) Employ transmittable criteria in the selection of individual coders from a similarly capable individual that is available for training and is able to reproduce the procedure in a different place.
- 3) Participants that generate the reliability documents must work independently from each other.

Thirdly, the reliability assessment was determined through a 'pilot-measurement' conducted on fifty annual reports from ten banks from the year 2010-2014 (10 banks x 5 years). These ten banks were later coded again at different dates and the slight differences were adjusted, which showed that the method was replicable.

Fourthly, after finishing all the annual report scoring, the entire scoring sheet (Microsoft Excel and Word) will go through the same process again to check whether any scores are missing or have been erroneously scored, and this is adjusted later. Based on this method, the annual report will undergo a second checking process. However, the drawback of this reliability technique is that it is time consuming and requires concentration. Even though it is time consuming, it is, nevertheless, worth the repetition to get the best possible result from the content analysis.

One important issue that this thesis tries to highlight to the literature is the subjectivity of the human in the form of stamina, which has not been highlighted by previous literature. This thesis defines stamina in terms of energy for the **concentration** required in conducting a content analysis. To ensure concentration, the coding process is only done when the researcher is in a good state of mind and is not in a rush. However, this technique is time consuming and needs proper planning, and time and mind-set management.

This thesis advocates that **concentration** is one important factor for reliability as intense conditions might affect work quality and accuracy (Green, 2001). Even though Krippendorff (2012) mentions the cognitive ability of the coders, he does not mention concentration specifically. For example, the coder might skip important information if less concentration is given during the scoring process. Moreover, body and mind concentration is important for the body to work well, thus producing quality work (Harris, 1982).

Overall, for the reliability assurance of the thesis' content analysis, this thesis has set four measures to ensure the best possible reliability as explained previously. The thesis also satisfies the three conditions for the reliability assessment as suggested by Krippendorff (2012).

In the next section, the extended dimensions and themes will be elaborated upon and explained further.

5.3.4. Extended Dimensions and Themes

5.3.4.1. Research Dimensions and Themes

The dimensions and themes are an important category in the content analysis process structure as it helps with the classification and grouping of data and analysis of information to allow its results and findings to be interpreted in a more meaningful manner. This has been proven by many researchers in Islamic bank studies in terms of the dimensions and themes in the areas of Islamic social disclosure. Maali et al. (2006) was the first to introduce the index comprising themes and the checklist in the study that involved Islamic banks while the second initiative was by Haniffa and Hudaib (2007) and the third one was by Belal et al. (2014), the largest and most comprehensive one.

The majority of research in this area has adopted Maali et al. (2006) and Haniffa and Hudaib (2007) index. For instance, in the studies of Mallin et al. (2014), Amalina Wan Abdullah et al. (2013), and Hassan and Harahap (2010). This research especially will bring together the relevant checklist of Maali et al. (2006), Haniffa and Hudaib (2007) and Belal et al. (2014). Moreover, the checklist also comprises standards from notable standard-setting bodies from conventional and Islamic backgrounds. For instance, these include the Global Reporting Initiative (GRI), Equator Principle, Centre for Social and Environmental Research (CSEAR), Organisation for Economic co-operation and Development (OECD), Islamic Financial Services Board (IFSB) and Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). Furthermore, a majority of developing countries do not apply international standards such as GRI (Das et al., 2015) and therefore this thesis tries to address the issues by incorporating such standards.

Overall, the '**7 dimensions**' and '**20 themes**' are gathered and decided accordingly by means of referencing them to previous literature and well-known standard-setting bodies in the area of social disclosure, regardless of whether they are Islamic or conventional literature or are Islamic or conventional standard-setting bodies. The details of the 7 dimensions and 20 themes are explained in the following subsections.

5.3.4.2. 7 Layer of Dimensions

The seven dimensions have been formed to capture the best possible dimension of social reporting by Islamic banks (refer appendix 10). It is designed to fit the objective of the research which includes the Social, Shariah, Environmental Governance and ethics disclosure dimensions. First, the top priority for Islamic banks is the 'Shariah', where the source and motivation of the establishment of Islamic banks comes from. This is considered to be 'rule and value' division. Furthermore, in division 2, '*Two layer governance*' is the core governance structure intended for the best practices of the Islamic bank. Lastly, division 3, '*moral and social*', is when the Islamic banks have at satisfied '*rule and value*' and '*2 layer governance*' and is where the moral and social aspect of other stakeholders can be well taken care of and managed. Thus, this thesis argues that the social reporting and disclosure structure for an Islamic bank should ideally be comprised of these three divisions which include the Shariah, Shariah Governance, Social External, Social Internal, Environment, Ethics and governance dimensions. These seven dimensions are further divided into twenty themes explained in the next section.

5.3.4.3. 20 Themes

The twenty themes that are employed to assess the Islamic bank's annual report are created based on the seven dimension objectives. To further visualise the segregation see appendix 11. This segregation will give a detailed result on a particular dimension that discloses more themes from the seven dimensions. The themes give greater focus on, and are more accurate in respect of, each dimension. For instance, under the environmental dimension score, the thesis can further investigate which theme contributes more towards the environmental dimension, whether it is the nature, wild life and animal rights, or recycling theme.

Furthermore, the thesis can appreciate the results and findings of the interpretation by having a general dimension and concentrating on the themes depending on the spectrum of objectives that the elaboration might need. In the next subsection, the SEGE disclosure of 7 dimensions and 20 themes is visualised in table 5.2 with reference to the literature and notable bodies explained earlier.

5.3.4.4. (SEGE) Disclosure Dimensions & Themes

Islamic Banking SEGE Disclosure Dimension & Themes (Social, Shariah, Ethics, Governance & Environment)	REFERENCES
<u>SHARIAH – Dimension 1</u>	
1-Shariah Compliance on Banking Transaction	Haniffa and Hudaib (2007); Maali et al.(2006); Belal et al (2014)
2-Shariah Awareness	AAOIFI; Haniffa and Hudaib (2007); Belal et al (2014)
3-Zakat	Haniffa and Hudaib (2007); Maali et al.(2006)-Belal et al (2014)
4-Benevolent Loan / Qard Hassan	Haniffa and Hudaib (2007); Maali et al.(2006)-Belal et al (2014)
5-Islamic Commitment	Kamla, R. and C. Roberts (2010); Haniffa and Hudaib (2007); Belal et al (2014)
<u>SOCIAL EXTERNAL – Dimension 2</u>	
6-Community Involvement	G4-SO1-GRI(Global Reporting Initiative); OECD(2011); Equator Principle(2013); OECD(2011); Haniffa and Hudaib (2007); Maali et al.(2006); Belal et al (2014); Birth et al.(2008)
7-Charity	CSEAR (Centre for Social & Environmental Accounting Research 1990-1991); AAOIFI; Haniffa and Hudaib (2007); Maali et al.(2006); Belal et al (2014)
8-Sponsorship	Birth et al.(2008); Suwaidan and Al-omari(2004); Belal et al (2014)
<u>SOCIAL INTERNAL – Dimension 3</u>	
9-Human Resource and Capital Management	G4-LA5-GRI(Global Reporting Initiative); AAOIFI; Haniffa and Hudaib (2007); Belal et al (2014)
10-Reward and Benefit	G4-LA2-GRI;G4-LA13-GRI;AAOIFI
<u>ENVIRONMENT – Dimension 4</u>	
11-Nature	G4-EN31-GRI(Global Reporting Initiative); Rizk, R. (2014); Haniffa and Hudaib (2007); Maali et al.(2006); Casson and Napier (2006); Belal et al (2014); Cho, Patten, and Roberts (2006)
12-Wild Life	G4-EN13-GRI(Global Reporting Initiative); Rizk, R. (2014); Harvey, B. (1995);
13-Recycle	G4-EN23-GRI (Global Reporting Initiative); AAOIFI
<u>ETHIC – Dimension 5</u>	
14-Institutional Ethics	G4-GRI(Global Reporting Initiative); AAOIFI; Graafland et al.(2006); Belal et al (2014); Suwaidan and Al-omari (2004); Sutantoputra(2009)
15-Business Ethics	Equator Principle(2013); AAOIFI; Harvey, B. (1995)
<u>SHARIAH GOVERNANCE – Dimension 6</u>	
16-Shariah Governance Framework	IFSB-10(2009)
17-Shariah Supervisory Board	Haniffa and Hudaib (2007)-Maali et al.(2006)-Belal et al (2014)-Ghayad(2008)
<u>GOVERNANCE – Dimension 7</u>	
18-Board of Director	G4-43-GRI(Global Reporting Initiative); G4-51-GRI; AAOIFI; Haniffa and Hudaib (2007); Belal et al (2014)
19-Management	Belal et al (2014)
20-Guiding Principle of Governance	IFSB-3(2006); Belal et al (2014); AAOIFI

Table 5.2: (SEGE) Disclosure Dimensions & Themes

Colour	Information
	Dimensions
	Themes

5.3.5. Ordinary Content Analysis Index

The SEGE disclosure score is in percentages. The calculation is based on the total score of all seven dimensions which comprises twenty themes and is divided by 155 checklists before multiplying it with one hundred to get the percentage score of each bank for each year. Moreover, all banks will have scores for 2010, 2011, 2012, 2013 and 2014 and an average score for five years.

The score for the index follows an unweighted disclosure index as there is no specific item in the dimensions and themes that are deemed to be more superior to each other and neither are they less important to each other. Rather, all the items are treated as equally important as a whole SEGE score and all diverse dimensions and themes are treated as one. Furthermore, an un-weighted approach provides an avenue in mitigating the subjectivity issues by minimising the issues of bias associated with the weighted methodology (Chau and Gray, 2002).

It is important to understand that even though the construction of the disclosure index involves subjectivity of judgement, it nevertheless has been proven to be a valuable tool that is still recognised in the area of disclosure research, particularly in social accounting (Marston and Shrives, 1991).

Below is the equation for the computation of each bank for each year. Where $T=Year$, $i=bank$, $n=number\ of\ checklists\ scored$.

$$\text{SEGE Ordinary Index} = \frac{\sum_{i=1, T=1}^n \text{Scored Checklist}}{155 \text{ Checklist}} \times 100$$

Figure 5.4: Formula for the SEGE Ordinary Score

The same method is employed to calculate the total disclosure score for individual banks for five years, disclosure by countries in each year and the average of five years, and also every dimensions and themes category. Moreover, these scores will later be used to interpret the findings in chapter 6 and

7. In the next sub-section, the binary coding example in the excel sheet will be visualised and explained. Furthermore, it will provide some insight into how the coding in Microsoft excel is conducted.

5.3.5.1. Checklist via Excel Procedure (Ordinary Score)

The presence of the disclosure item in the annual report is coded as (1) in the excel sheet while the absence of the item in the checklist is coded as (0). The procedure for scoring the annual report mainly follows the method that is well-established in the literature of social reporting and business ethics as advocated by Beck et al. (2010), Beattie et al. (2004) and Marston and Shives (1991). Moreover, the scoring method used in this research is in line with the Islamic accounting background literature, for instance in Belal et al. (2014) and Haniffa and Hudaib (2007). The procedure of the coding above (1/0) does not discriminate between the important and vital roles among disclosure items. Below is an example of binary coding in the excel work sheet:-

ENVIRONMENT	All	47%	5%
<u>Nature</u>		0.5	
96 Nature of activities to Protect Environment	1	6	
97 Amount donated on protecting environment	1		
98 Details of Project financed which caused harm for environme	0		
99 Environmental policy statement	0		
100 Support reforestation	1		
101 Any policy disclosure on Bank's Supplier Environmental Asses	0		
Total	3		
<u>Wild Life & Animal Right</u>		0.333333	
102 Wild Life sponsorship	0	6	
103 Express concern on wild life	1		
104 Any disclosure on bank's initiative on protection of habitat v	1		
105 Policy avoid financing to company that involved in animal ex	0		
106 Policy avoid financing to company that involved in blood spo	0		
107 Policy avoid financing to company that involved in Factory Fa	0		
Total	2		
<u>Recycle</u>		0.666667	
108 Recycle statement or initiative	1	3	
109 Any disclosure on detail of office waste management of offic	1		
110 Any disclosure of total weight of disposal waste that can be re	0		
Total	2		
Total	7		

Figure 5.5: Binary Coding in Excel Sheet

For full dimensions and the themes' descriptions, see appendix 3 for a scoring checklist and appendix 5 for an example of a full five years coding for a bank (*for the original scoring sheet contact the author*).

However, in the next section for the SEGE quality disclosure score, a slightly different coding and scoring method was applied. The method was mainly influenced by the approach of Botosan (1997) and Beck et al. (2010) but was then extended to further criteria.

5.3.6. Quality Content Analysis Score

Quality disclosure is a subjective issue that is frequently labelled as difficult to measure (Beattie et al. (2004)). However, some research uses binary coding to measure the quality of disclosure which normally takes the form of 3 levels. For example, Botosan (1997) employs (3) for quantified disclosure, (2) at the qualitative level and (0) for non-disclosure. However, the idea of capturing quality values was further extended by Beck et al. (2010) in what is known as the CONI approach, where two-step coding was introduced in which type 1 disclosure is mainly on phrases and type 2 ranges from a scale of 1 to 5 with numerical values.

In this thesis, the 3 level scoring is designed based on the idea and spirit of previous literature to capture the greatest possible quality value of disclosure inside an annual report. However, the element of **graphics** has been well recognised in this thesis' version of the 3 level scoring method in that graphics play an important role in determining the level of disclosure in the 3 level procedure. In addition, it is also important to note that a fourth field (0) score for non-disclosure also exists, following Beck et al. (2010).

Moreover, this thesis views graphics as an important element to be segregated and appreciated. Even though graphics might be portrayed for the benefit of the company, as argued by Beattie and Jones (2002), graphic disclosure that the company intends to signal to stakeholders might help in understanding disclosure better (Bernardi et al., 2002). In the literature of Islamic accounting, there is limited exploration of graphic-related disclosure in studies of Islamic banks. However, there is a study

related to Islamic values by Rania and Clare (2010) which found that companies tend to signal their religiosity through images and pictures in the annual report. Thus, this thesis will fill the lacuna on graphic scoring in a systematic way in the 3 level scoring procedure instead of combining them as one value under disclosure like in previous research in the field of Islamic accounting, such as in Haniffa and Hudaib (2007) and Belal et al. (2014).

The model of 3 level scoring designed in this thesis differs from that of Botosan (1997) by having an actual 4th coding which is explained in the last two paragraphs. Instead of (1) for non-disclosure, this thesis labels (0) for non-disclosure and (1) for purely narrative disclosure. Furthermore, score (2) refers to a high level of narrative such as policy and framework communication. One thing that differs this research from Botosan (1997) and Beck et al. (2010) in step two is the graphic disclosure. However, the same essence of statistics and figures, that is the quantitative proof from the annual report, is required for level 3.

Furthermore, the procedure of the 3rd level in this study, has 3 spectrums in level 2 and level 3 which are visualised in the next sub-section “5.3.6.1. The 3 Level Procedure (Quality Score)”. It is important to note that, after scoring, the figure will be transferred to the formula below to calculate the SEGE Quality score to be interpreted and used in the findings for chapter 6 and 7 as the SEGE Quality score in the thesis.

Below is the equation for the computation of each bank for each year. Where $T=Year$, $i=bank$, and $n=number\ of\ checklists\ scored$.

$$\begin{array}{c}
 \text{SEGE Quality Score} \\
 \text{Or} \\
 \text{3 Level Score}
 \end{array}
 = \frac{\sum_{i=1, T=1}^n \text{Scored}}{60 \text{ Maximum Score}} \times 100$$

The formula in the last page is also used to calculate the total of each bank in each year and the average of the five year period of study. Below is the example of the scoring from the 3 level procedure that will be elaborated upon in the next page. This example can also be referred to in appendix 4.

Bank's Name: Bank Rakyat Malaysia Berhad (BRMB) Annual Report Year: 2013 40

SEGE INDICATOR - $\Sigma = 134/36$	STAGE 1 - $\Sigma = 31$	STAGE 2 - $\Sigma = 29$	STAGE 3 - $\Sigma = 74$	GRAPHIC - $\Sigma = 36$	NOTES	
SHARIAH - $\Sigma = 16/2$	$\Sigma = 5$	$\Sigma = 0$	$\Sigma = 11$	$\Sigma = 2$		⑨
Shariah Compliance on Banking Transaction - $\Sigma = 1$	①					1
Shariah Awareness - $\Sigma = 1$	①					1
Zakat - $\Sigma = 11/2$	②		⑨	②	See if they tell how many managed by bank & how many distributed to state gov.	3
Benevolent Loan @ Qard Hassan - $\Sigma = 2$			②			3
Islamic Commitment - $\Sigma = 1$	①					1
SHARIAH GOVERNANCE SYSTEM - $\Sigma = 15/6$	$\Sigma = 8$	$\Sigma = 6$	$\Sigma = 1$	$\Sigma = 6$		④
Shariah Governance Framework - $\Sigma = 1$	①					1
Shariah Supervisory Board - $\Sigma = 14/6$	④	⑥	①	⑥	one and only bank strictly ask all SSB all to signed.	3
SOCIAL EXTERNAL - $\Sigma = 41/9$	$\Sigma = 3$	$\Sigma = 6$	$\Sigma = 32$	$\Sigma = 9$		⑨
Community Involvement - $\Sigma = 6$	②		④			3
Charity - $\Sigma = 21/6$	①	④	⑥	⑥		3
Sponsorship - $\Sigma = 14/3$		②	⑫	③	many evidence on scholarship	3
SOCIAL INTERNAL - $\Sigma = 21/3$	$\Sigma = 6$	$\Sigma = 1$	$\Sigma = 14$	$\Sigma = 3$		⑥
Human Resource and Capital Management - $\Sigma = 12/3$	②	①	⑨	③		3
Reward and Benefit - $\Sigma = 9$	④		⑤		Charman award - holiday voucher	3
ENVIRONMENT - $\Sigma = 0/0$	$\Sigma =$	$\Sigma =$	$\Sigma =$	$\Sigma =$		⑥
Nature - $\Sigma =$						0
Wild Life - $\Sigma =$						0
Recycle - $\Sigma =$						0
ETHIC - $\Sigma = 15/2$	$\Sigma =$	$\Sigma = 2$	$\Sigma = 13$	$\Sigma = 2$		⑥
Institutional Ethic - $\Sigma = 2$		①	①		Customer feedback (very comm) / customer complaint	3
Business Ethic - $\Sigma = 13/2$		①	⑫	②	micro financing 100 mil, lots of micro credit scheme	3

Amirul Haqem Abd Ghani
(Social, Shariah, Ethic, Governance & Environment)

Islamic Bank SEGE Disclosure Checklist & Indicator
Private & Confidential

5.3.6.1. The 3 Level Procedure (Quality Score)

Level Criteria	LEVEL 1	LEVEL 2	LEVEL 3
CRITERIA BASED ON SEGE INDIVIDUAL DIMENSIONS & THEMES	Narrative Phrases (Complete phrase regarding a theme)	1st Spectrum= Narrative Phrases with Policy or Framework Embedded <u>Or</u> 2nd Spectrum= Narrative Phrases with Graphic (Which Do Not hold information - Number, Value, Figure, Indicator, Measurement, Fact) <u>Or</u> 3rd Spectrum = Graphics (Which Do Not hold information - Number, Value, Figure, Indicator, Measurement, Fact)	1st Spectrum = Narrative Phrases with statistic (Number, Value, Figure, Indicator, Measurement, Fact) <u>Or</u> 2nd Spectrum = Narrative Phrases and Graphic with statistic (Number, Value, Figure, Indicator, Measurement, Fact) <u>Or</u> 3rd Spectrum = Graphic with statistic (Which held information- Number, Value, Figure, Indicator, Measurement, Fact)

Figure 5.6: 3 Level Scoring Procedure

In assuring the procedure of the analysis, the annual report in this research is consistent and reliable. The table in the last page was created as a guideline to identify the criteria for Level 1, Level 2, and Level 3 of information extracted from the annual report. The counting process is done by the researcher and, for reliability and accuracy purposes, the score was checked by another research assistant with a minimum qualification of a degree in accounting and who had previously worked in an audit firm to ensure that the counting of the score was accurate. The score was then transferred on to another A4 size paper to be counted and double-checked by the checker. The result is then again checked by the researcher. In order to best describe the process of the 3 levels of content analysis, several examples were extracted from the annual report to visualise it and make it easy to understand (see appendix 12).

5.3.7. Quantitative Research Method

In this section, the explanation of the estimation model which complements the content analysis method will be explained further and the findings will be visualised in chapter seven.

5.3.7.1. Regulatory Quality

An environment where regulatory quality is low or is given less attention will indirectly promote a society with socially irresponsible characteristics, and this normally happens in developing countries (Azmat and Coghill, 2005). In addition, because of the low regulatory quality in developing countries, these countries are normally the target of unethical multinational companies which exploit them. This is what is known as the Pollution Heaven Hypothesis (PHH), as advocated by Dam and Scholtens (2008). Therefore, regulatory quality is an important factor to be considered in investigating the social reporting issue, for instance in social, environmental and ethical subjects.

Normally, a low regulatory quality is associated with a low level of social responsibility activity by firms. Furthermore, narrowing the scope to the banking industry, Djalilov and Holscher (2017) findings are also consistent with the norms, that is to say an increase in the level of regulatory quality suggests that the banks may likely be engaged in social, moral, responsible and ethical activities. Regulatory

quality in a country also serves as an indicator of whether the bank or any organisation operating in the country is well governed or vice versa.

In this thesis, both of the countries under the study are developing countries. However, there are distinctive characteristics between these countries that may suggest different results and opinions. Even though Islamic banks are grounded in the basis of divine rule and are supposed to promote the values of justice and morality regardless of the socio-environment, the differences in regulatory quality, democracy level, and government effectiveness of the two countries might affect an Islamic bank's social disclosure quality. This is because the regulatory value of a country will closely follow the culture and social norms embedded by the authority and the regulator's orientation in terms of either regulation and/or religion. In the next sub-section, the religiosity value will be further explained.

5.3.7.2. Religiosity

Prior literature has extensively discussed the impact of religion on economic objectives and outcomes. For instance, Hilary and Hui (2009) studied the influences of corporate decisions related to investment. Furthermore, particularly in the area of accounting, religiosity has been study with regards to the area of financial reporting, for instance in Dyreng et al. (2012) which focused on religious social norms' impact on financial reporting and the emphasis of McGuire et al. (2012b) on the religious impact of irregularity in financial reporting. Despite the extensive literature in the area, less has been understood on the extent of religiosity's relationship towards social disclosure, given that the relationship between religiosity and ethical behaviour remain abstract (Walker et al., 2012).

However, there are several studies regarding corporate social responsibility's relationship with religion. For instance, Chatjuthamard-Kitsabunnarat et al. (2014) discussed the effect of religious piety on social responsibility while Brammer et al. (2007) explored the relationship between religious attributes and individual attitudes towards social responsibility. However, less studies have been done connecting religion and social reporting in the banking area. Since the banking sector is the

intermediary and source of funds to other companies, it is seen as an important figure in the economy (Cowton (2002) and can be the moderator and advocator for social and environmental causes.

Furthermore, religiosity and social responsibility are a rare topic, specifically in the area of social reporting specific to Islamic banks in regards to disclosure. Therefore, this study intends to explore the relationship of religiosity with the disclosure quality of an Islamic bank. Indeed, if individuals with different levels of religious orientation react differently towards corporate social responsibility, as argued by Brammer et al. (2007), this thesis argues that it is possible that Islamic banks with religious flags and orientations would react differently in their socially responsible acts, environmental effort, and moral and ethical values.

5.3.7.3. Hypotheses development

Dyrenge et al. (2012) argues that religiosity can lessen the likelihood of financial statement misinterpretation. Certainly, this can be linked to the fact that Islamic banks with higher religious value might have a manager that is particularly sensitive (moral-ethical) in preparing the annual report content, thus providing a useful and quality disclosure. The latter statement is supported by Adhikari (2014) who states that as religiosity affects ethical decisions within the corporate environment, Islamic banks have the potential to act ethically based on their religious flag and portray the value into the annual report disclosure.

Since the prior literature provided consistent insight into how religiosity is proven to provide a positive impact towards economic objectives and 'moral-ethical' practices by the companies and individuals, this thesis therefore advocates and predicts that Islamic banks that operate in more religious environments will provide a better quality of disclosure in the annual report. This is consistent with the argument by Chircop et al. (2017) that religiosity is based on the geographical area or that the country level heavily influences the bank's behaviour and that behaviour can include social and environmental effort. Furthermore, the bank management's behaviour and decision on disclosure may be influenced by the religious setting of a country. Therefore, hypothesis one is constructed as follows: -

H1: Islamic Banks located in a more religious environment are likely to have higher social disclosure quality

This study further estimates whether the regulatory quality in a country can significantly influence social reporting quality. As suggested by prior literature, regulatory quality may influence the socially responsible activity of a company, but normally this happens mainly in developed countries with heavy rules and regulation on social issues, for instance in the United Kingdom and Sweden. In order to be

socially responsible, commercial entities need to be established in a strong and stable regulatory framework (Azmat and Samaratunge, 2009).

Furthermore, regulatory quality will include robust standards and good enforcement from the government and regulator which monitors and supervises the banking industry. This normally promotes the engagement of social activities between the banks and society (Djalilov and Holscher, 2017).

However, since this thesis focuses on developing countries, there is a huge possibility that the regulatory quality in the developing countries will have a lack of enforcement and poorer monitoring schemes by the government. Therefore, this opens up the possibility of uncertainty of whether the regulatory quality in developing countries may promote better disclosure quality or not. Since, in general, regulatory quality promotes engagement of socially responsible activities by banks, this thesis thus argues that regulatory quality affects Islamic banks' disclosure quality as per H2 below:-

H2: Islamic Banks operating in a quality regulatory environment are likely to have higher disclosure quality

In the next sub-section, the estimation model will be explained.

5.3.7.4. Estimation Model

*SEGE Disclosure Quality*_{it}

$$= \alpha_0 + \beta_1 \text{Regulatory Quality}_{it} + \beta_2 \text{Religiosity}_{it} + \sum_{i=1}^n \beta_i \text{Control} + u_{it} + \varepsilon_{it}$$

Where:

Disclosure Quality = Quality Disclosure Score (3 Level Disclosure Score)

Regulatory Quality = Regulatory Quality Score (World Governance Indicator)

Religiosity = Importance of Religion Score (World Value Survey)

Controls = Listed, Bank Age, BOD Size, SB Size, NED (Composition), Size (Ln Total Asset), Profitability (Ln Net Income), ROA (Return on Asset), GDP (Growth Rate)

Dependent variable

The dependent variable is the SEGE quality index which incorporates items which are mainly from Belal et al. (2014), Haniffa and Hudaib (2007) and Maali et al. (2006). Moreover, it also incorporates international standards like the *Global Reporting Initiative*, *Equator Principle*, *CSEAR*, *OECD*, *AAOIFI* and *IFSB*. The score is calculated as per the formula below which has also been explained before in the quality content analysis section:-

$$\text{SEGE Quality Score} \quad \text{Or} \quad \text{3 Level Score} = \frac{\sum_{i=1, T=1}^n \text{Scored}}{60 \text{ Maximum Score}} \times 100$$

Interest variable

Regulatory quality is derived from a reputable world governance indicator for the period of the study (2010-2014). Despite criticisms of the world governance indicator such as with the construct's validity, as criticised by Thomas (2010), the world governance indicator nevertheless remains one of the most important indicators used by policy makers and institutions in matters ranging from benchmarking to disbursing budgets (Kaufmann et al., 2010).

Furthermore, religiosity scores are gathered from world value surveys. The survey covers an international analysis on thousands of respondents throughout the world, mainly from 99 countries worldwide (Kanagaretnam et al., 2015). Since religiosity does not change in a short period, the world value survey obtains information from respondents every five years. The religiosity data gathered and used in this thesis is from wave six (2010-2014), which is exactly the period of study of the thesis.

Main Control

A set of control variables were identified following previous literature in Islamic banking and conventional literature on social responsibility and environmental study, for instance in Mallin et al. (2014), Chiu and Wang (2015) and Huang and Kung (2010). In detail, the control variables are as follows: (1) Listed is a binary dummy variable on which 1 is for listed and 0 is for non-listed banks. This thesis also uses other control variables such as Bank Age (2) and the natural logarithm of total assets as a proxy for bank size (3). It is argued that bank age and size has an impact on corporate social responsibility (Mallin et al., 2014). Huge banks visible through the public eye are likely to display and supervise their activities towards a broader society and stakeholders (Al-Tuwaijri et al., 2004).

Furthermore, the thesis also controls for Board size (4) and the proportion of non-executive directors (5). It is argued that non-executive directors heighten the credibility and calibre of a company and help to retain legitimacy, as argued by Johnson and Greening (1999). Moreover, the greater number of board size has been linked with more committee's being set-up in the organisation, for instance ethics and social responsibility committees, as means to link itself to the external environment (Pfeffer, 1973).

In addition, the study controlled for shariah supervisory board size (6). This is because the size of a Shariah supervisory board may play a positive role in social responsibility as advocated by Farook et al. (2011). Moreover, Shariah supervisory boards play an important role in gaining stakeholder confidence and legitimacy for Islamic banks (Mallin et al., 2014). Furthermore, this thesis controls for macro-economic factors by using GDP growth (7) as this might indirectly influence the bank's social performance.

The last group of control variables relate to profitability, namely Return on Asset (8) and Net Income (9). It is argued that in an unstable economic condition, organisations tend to pay less attention to social responsibility spending compared to economic value activity, and a good level of financial

performance has an influence on board of director consideration for the expenditure towards social causes (Mallin et al., 2014, Roberts, 1992).

The statistical package STATA 14 is used to perform the statistical estimation on the hypotheses developed and discussed in the previous section. The data is organised in panel form as it constitutes multiple periods, which are years (5 years of annual reports), and 34 banks, which constitute 170 identifications in the panel data. Panel data is better at measuring and identifying effects that pure cross-section and time-series data cannot capture.

5.4. Data Collection and Significance of the Sample

5.4.1. Significance of the Time Frame and the Coverage

In the current literature for Islamic bank social disclosure and corporate social responsibility, there are numerous sampling designs with different periods, different numbers of banks, and different geographical locations. The samples vary between the total number of banks and their periods of study. The distribution ranges between one (1) bank with a long-period of time of 28 years, as employed by Belal et al. (2014), to ninety (90) banks with a two year time frame in Mallin et al. (2014).

A majority of the research for Islamic bank social reporting falls in between the two time-frames, for instance in Rahman Belal (2001), Farook et al. (2011) and Ali Aribi and Arun (2015). This research will try to capture the data that falls between the years 2010 and 2014 given a five year observation of annual reports of 34 Islamic banks in Malaysia and Bahrain. In addition, this time frame is chosen to determine the disclosure commitment of Islamic banks in the two countries which are populated by the most Islamic banks, namely Malaysia and Bahrain.

Moreover, these countries, Malaysia and Bahrain have been chosen as the sample as they are well-known to be the home of two distinctive models of Islamic banks in the world, which are the Malaysian model and the Middle Eastern Model, as advocated by Mohd. Yusof and Bahlous (2013). Furthermore, looking at the statistics, Malaysia is the most populated with Islamic banks followed by Bahrain as the second most populated by Islamic banks.

Below are some of the prominent papers in the area of Islamic bank social reporting that utilise indexes and checklists in their research compared with the thesis. The purpose of the table below is to highlight the time-frame and geographical trend of the studies.

<i>AUTHORS</i>	<i>YEAR</i>	<i>SAMPLE GEOGRAPHICAL LOCATION</i>	<i>SAMPLE SIZE & YEAR</i>	<i>MEASURE OF DISCLOSURE</i>
MAALI ET AL.	(2006)	Islamic Banks around the world	29 (2000)	Disclosure Index consist of 30 items
HANIFFA AND HUDAIB	(2007)	Islamic Banks in Gulf Countries	7(2002-2004)	Ethical Identity Index consist of 78 Items
ABDUL RAHMAN ET AL.	(2010)	Islamic Banks in Malaysia	1(1992-2005)	Adapted Maali Index
HASSAN AND HARAHAHAP	(2010)	Islamic Banks in Bahrain, Bangladesh, Indonesia, Malaysia, Saudi Arabia, Kuwait, UAE	7(2006)	Adapted Haniffa and Hudaib Index
FAROOK ET AL.	(2011)	Islamic Banks around the world	47(2007)	Adapted Maali Index
ARIBI AND GAO	(2012)	Islamic Banks in Gulf Countries	21(2004)	Narrative Disclosure
BELAL ET AL.	(2014)	Islamic Bank in Bangladesh	1(1983-2010)	Disclosure index consist of 149 items across 16 themes
MALLIN ET AL.	(2014)	Islamic Banks around the world	90(2010)	Adapted Maali and haniffa 7 Hudaib Index 84 items
ALI ARIBI, Z. AND T. ARUN (2015)	(2015)	Bahrain	7(2006,2008,2010)	Maali, Haniffa & Hudaib, kamla, Arbi & Gao
THIS THESIS	(2018)	Malaysia and Bahrain	34(2010-2014)	155 Items across 7 dimension and 20 themes (Adapted Bela et al., Maali, Haniffa & Hudaib, standard from GRI, CSEAR, OECD, IFSB and AAOIFI)

Table 5.3:Geographical and Size Sample in the Literature

The significance of the year 2010 as a preliminary starting year is because it is considered a stable year where the National Bureau of Economic Research declared that the economic recession ended in June 2009 (National Bureau of Economic Research, 2010). This makes 2010 a steady starting point to start the study as the years were stable up to 2014. The years 2010 to 2014 were the years that the world economy started to positively build-up from the 2006-2007 economic crash.

Moreover, it is the “through” period for the economic recession for five years with the latest year in which annual reports are available. It is expected that the stability of the economic condition in

between 2010-2014 will give a reasonable stability to the results of the research. During the year 2010 to 2014, there were several significant events in the area of the Islamic banking industry. First, in 2009, the IFSB introduced guiding principles for shariah governance which took effect from 2010 onwards. Second, the central bank of Malaysia produced a shariah governance standard in 2010 which took effect from 2011 onwards. Third, AAOIFI updated the standard in 2010 which took effect from 2011 onwards. And fifth, the government of Malaysia passed the Islamic financial services act 2013 which took effect immediately. All of these events provide a progressive avenue to evaluate the Islamic banks' disclosure movements, as it is a period of five years with numerous events occurring in the regulatory area of the industry.

Moreover, these two regions have been the hub for Islamic finance standard setting bodies and many supportive organisations. For instance, there are the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Islamic International Rating Agencies (IIRA) and International Islamic Financial Market (IIFM) in Bahrain. In Malaysia, there are the Islamic Finance Services Board (IFSB), International Shariah Research Academy for Islamic Finance (ISRA) and Islamic banking and finance Institute Malaysia (IBFIM). All these standard setting and research bodies help the Islamic banks to operate in a certain structured and procedural manner compared to other countries. Thus, this makes these two countries the ideal countries to study, examine and investigate the Islamic banking research area. Having these two countries as a study sample will help to address the research objective and answer the research question.

Above all, the distinct characteristics of the sample countries and time frame of the 18 banks in Malaysia and 16 banks in Bahrain will help to compare the (SEGE) disclosure between these two models of Islamic banks. We can ask how these models differ and affect (SEGE) disclosure. Moreover, are there any differences in disclosure quality and ordinary disclosure between the two prominent countries which are Islamic banking hubs? In addition, the differences between the two countries may suggest the impact of religiosity levels and regulatory quality on both countries.

Moving further, the next subsection **“5.4.2. The Annual Report”** will explain on the annual report extraction plan and process.

5.4.2. The Annual Report

The Annual report, as mentioned by Gray et al. (1995a), is an important official document that is published regularly. The annual report has been widely used by researchers to analyse the social reporting of Islamic banks (Mallin et al., 2014, Belal et al., 2014, Kamla and Rammal, 2013, Amalina Wan Abdullah et al., 2013, Ahmed Haji and Anum Mohd Ghazali, 2013, Farook et al., 2011, Kamla and Roberts, 2010, Aribi and Gao, 2010, Othman, 2009, Haniffa and Hudaib, 2007, Maali et al., 2006, Rahman Belal, 2001, Baydoun and Willett, 2000).

The data is gathered by reviewing the information in the bank scope and banker’s database to get the best possible facts and information of all Islamic banks in the world. This process helps in screening and making sure that no Islamic bank is left behind. The information was gathered for 160 Islamic banks across the world and then Islamic banks in Malaysia and Bahrain were selected. This left 18 Islamic banks in Malaysia and 16 in Bahrain with a total of 34 Islamic banks in both countries. The identified banks’ annual reports were later gathered through the individual official bank’s website for a period of five years from 2010 to 2014.

The annual report is seen as a consistent and regular medium of communication between banks and its stakeholders (Belal et al., 2014). Therefore, organisations provide information, value and opinions in the annual report. Thus, by communicating certain themes of information in the annual report, they provide a signal to stakeholders. Whether or not the stakeholders successfully receive the signal, the banks have embedded the information in their official documentation, no matter whether it is relevant or not to stakeholders. Moreover, this also helps to construct a public image for the organisation (Gray et al., 1995b). In this thesis, it is perceived that Islamic banks theoretically would

utilise annual reports as a means to provide a positive public image in certain themes that the bank is concerned with and show commitment towards stakeholder affairs.

Furthermore, despite Mallin et al. (2014) arguing that the annual report is not complete and does not provide a true picture of corporate social responsibility disclosure, Ali Aribi and Arun (2015) argue that a substantial strand of literature utilises annual reports as the main source of data to evaluate companies' attitudes concerning social reporting. This study utilises the annual report as a major source of analysis as the annual report is one of a bank's official mediums of communication for its stakeholders, and such a medium is tangible and kept safe for a longer time in a hard copy and soft copy. Moreover, Smith (2003) argues that the annual reports use of channelling communication to stakeholders is consistent with the principles of stakeholder theory.

As compared to other electronic media as favoured by Mallin et al. (2014), alongside the bank's website, such media are much more perishable and the content cannot be guaranteed to be available for a long period of time due to the nature of the content of websites as frequently changing. Accordingly, even though there are several disclosure media available apart from annual reports, such as websites and corporate social media, Unerman (2000) argues that a researcher must put a limit on the range of media available for examination in order to ensure the completeness and consistency of the data under investigation.

Furthermore, website contents tend to change over time. Therefore, static information in the annual report is much more reliable and preferred. In this research, it is strongly argued that the main source of data used to evaluate Islamic bank social reporting should be the annual report based on the above arguments and foundations. In addition, monitoring one communication source such as the annual report provides more consistency if compared to multiple disclosure media (Gray et al., 1995a). Moreover, Toms (2002) argues that the annual report is utilised as a quality-signalling device by the company, and Islamic banks, as business entities, would normally provide thorough information through this medium as compared to other perishable mediums.

Moving further, based on the annual report data gathered, below are the statistics for Malaysia and Bahrain: -

#	Country	Total banks	Model of ISB	Total Annual report
1	Malaysia	18	Malaysian	90
2	Bahrain	16	Bahraini	80
+	Total	34	Malaysian-Bahraini	170
Year	2010, 2011, 2012, 2013, 2014			

Table 5.4: Countries' Annual Report Statistic Figures

This study will evaluate a total of 170 annual reports from both countries. The 90 annual reports from Malaysia represent the Malaysian model and 80 annual reports from Bahrain represent the Bahraini model.

5.5. Conclusion

This chapter articulates the methodological foundation of this thesis based on the research objectives of this study. In order to fulfil the research objectives, this chapter explains the philosophical assumption of the thesis and further explains the systematic process of the method employed by the study.

Furthermore, for methodology, there are three lacunae to be filled and extended within the Islamic banks' social reporting literature. These are: firstly, the enhancement of the 3 levels content analysis which provides a better understanding on Islamic banks' commitment towards disclosure based on the work of Botosan (1997) and Beck et al. (2010). Moreover, this method will also distinguish the banks that genuinely perform disclosure for stakeholders or are just legitimising themselves. Secondly, analysing and creating a separate result for the disclosure with respect to graphics rather than combining it with the result for disclosure with respect to words and phrases. Thirdly, using a double-content analysis, which is the 3-Level and the checklist and then comparing their results to ensure the rigorousness of the method in the content analysis to provide a higher quality result.

In addition, the selection and combination of checklists in the index created by Maali et al. (2006), Haniffa and Hudaib (2007), Belal et al. (2014) and other international standards, for instance the Global reporting initiative, Equator Principle, OECD, AAOIFI, and IFSB in this thesis aim to strengthen the SEGE disclosure checklist and framework.

In conclusion, this chapter provides an avenue and link between the theoretical perspectives and the empirical method for this thesis. The methodological sequence and the result will be portrayed and visualised in the following chapters. Chapter 6 will provide the result for the method discussed on ordinary and quality SEGE disclosure and chapter 7 will deliver the result based on the quantitative method of estimation.

Chapter 6

(Ordinary & Quality [SEGE] Disclosure)

CHAPTER 6 ORDINARY & QUALITY (SEGE) DISCLOSURE

6.1. Introduction

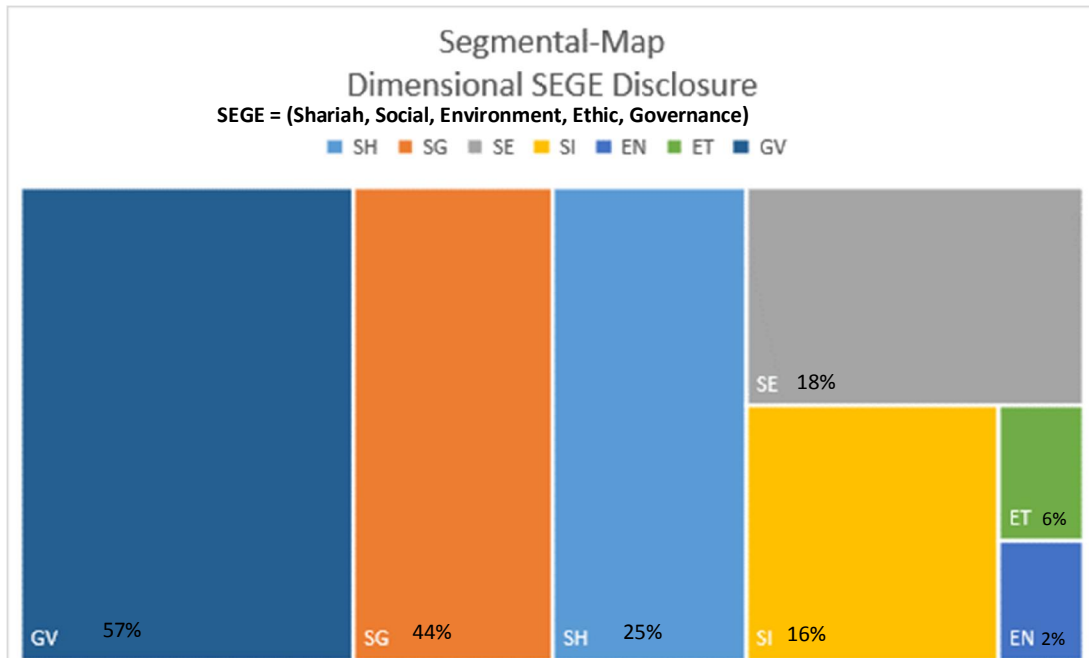
This chapter constitutes the main part of the thesis findings which aim to differentiate and compare between ordinary and quality disclosure. In this chapter, the data extracted from the annual report using the “ordinary” and “3 level” method will be presented, commented on, and discussed from the tables and graphs provided. Most studies in Islamic banking disclosure specifically and disclosure studies generally place less consideration on the importance of differentiating the degree of disclosure quality. Rather, they have combined the disclosure regardless of their impact, usefulness and quality. Therefore, in this chapter, the ordinary and quality disclosure will be clearly separated and compared to each other to be able to appreciate the findings.

In detail, this chapter consists of three main sections. The first section “6.2 Disclosure Overview” presents the attractive segmental-map, an overview of disclosure composition by seven dimensions and twenty themes. Secondly, section “6.3. Broad-Spectrum of Ordinary & Quality Findings” will extensively present the findings in significant yet easy to view tables, graphs and matrices, including the comparison of *ordinary* and *quality* disclosure. Lastly, section “6.4. Countries Range Comparison” will illustrate the findings from country segregation comparisons to promote an understanding and appreciate the differences between Malaysia and Bahrain.

In summary, this chapter provides an insight into the findings, which are linked explicitly in one way or another with the role of legitimacy and stakeholder theories, which have been discussed in “CHAPTER 4 Theoretical Foundation and Disclosure Framework”.

6.2. Disclosure Overview

6.2.3. Disclosure Distribution 7 Dimensions



GV = Governance SG = Shariah Governance SH = Shariah SE = Social External SI = Social Internal ET = Ethics EN = Environment
Figure 6.1 : 7 Dimensions Segmental-Map

The above segmental-map in figure 6.1 serves as an introduction on the disclosure coverage of the Islamic banks involved. The distribution of the disclosure is led by the “governance” dimension while the “environment dimension” is on the smallest coverage of the total portion of the disclosure segment. The segmental map is the result of both Malaysia and Bahrain Islamic banks average disclosure for each dimension. The result consists of 170 Islamic banks’ data for 5 years from 2010 to 2014.

What stands out in this segmental-map is the dominance of the “governance, shariah governance and shariah” dimension as the top three whereas “environment, ethics and social internal” dimension are the lowest three dimension in (SEGE) disclosure. The top three dimensions are the dimensions that relate to *rules, guidelines, regulations* and *parameters*, which are closely linked with legitimacy theory and the survival of an Islamic bank. In contrast, the lowest three dimensions were the dimensions

related to the *social*, *moral* and *ecological* aspect that is connected with stakeholder theory and the ethical perspective of Islamic banks. In the next sub-section, wider themes of disclosure coverage will be discussed.

6.2.4. Disclosure Distribution via 20 Themes

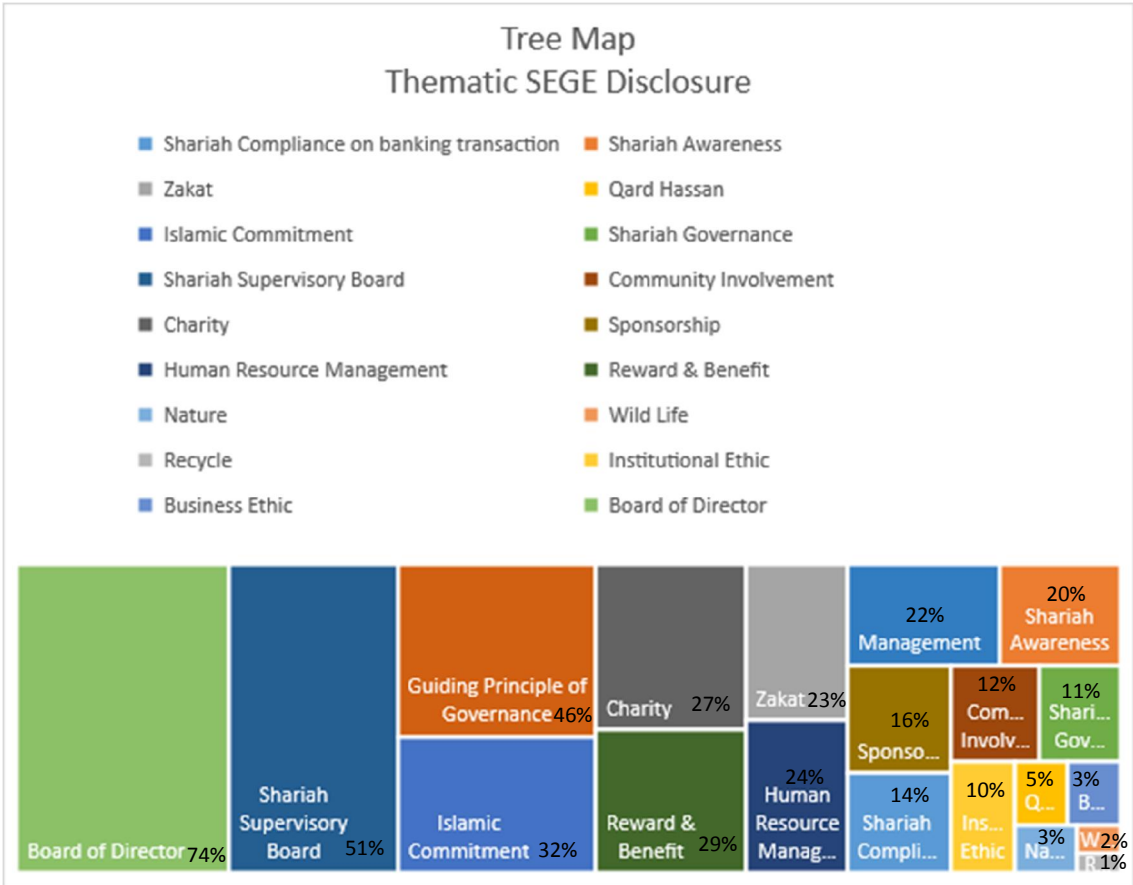


Figure 6.2: 20 Themes Segmental-Map

Figure 6.2 illustrates the wider themes within the seven dimensions explained by “Figure 6.1: 7 Dimensions Segmental-Map” from the last page. Compared to the dimension segmental-map in the last page, the thematic segmental-map displays a deeper categorisation of themes in a more extensive view, complementing the seven-dimension mapping. The information in the figure above is gathered from a combination of Malaysian and Bahraini Islamic banks’ average disclosure for each theme from 2010 to 2014.

What is interesting about the data in this segmental-map is that it shows more detailed themes under the dimensions. For example, in the last page, the biggest segment of disclosure was the “governance” dimension while the above figure shows that the largest themes’ segment is the “board of director” theme. In this manner, it informs that under the “governance” dimension, the “board of director” theme is the leading disclosure compared to any other themes.

The themes identified in the segmental-map signal a very important information and trend. In general, it still shows that Islamic banks involved in this study concentrate more on themes that are related closely to *governance* and *shariah* information. These are the top three themes, namely the “board of director”, “shariah supervisory board”, and “guiding principle of governance” themes. In contrast, the disclosure themes that a wider stakeholder would be interested in, like the “nature, wild life and recycle” themes are the lowest three themes of all.

Based on the above information, the findings in which the “board of director” themes disclosure is dominant is consistent with Haniffa and Hudaib (2007) where the board of directors’ information is a common disclosure throughout the period of their study. Furthermore, the environment dimension has been left out as the lowest component of disclosure, which is consistent with Rizk (2014) findings and discussion where environmental themes are less covered by Islamic financial institutions.

Moreover, in general banking literature, where issues of environment and sustainability are rigorously discussed, research has found that the environment is a less important factor to the banks. For instance, Cowton and Thompson (2000) advocate that banks should consider environmental factors in their lending processes while Campbell and Slack (2011) found that the environment is not a crucial factor for the banks’ loan filtration. In broader business ethics literature, many studies in environment and sustainability beyond the banking sector have discussed environmental and sustainability issues (Thorne et al., 2017, Roberts and Wallace, 2015, Higgins et al., 2015, Gray, 2006, Patten, 2002, O’Donovan, 2002, Gray et al., 2001). However, attention that is purer is needed on the issues of environmentalism, sustainability and social responsibility by corporations.

Having understood the broad pattern of disclosure in this study, the next section is designed to give a much more detailed result of the study with the *ordinary* and *quality* identification of disclosure.

6.3. Broad-Spectrum Findings

6.3.1. Ordinary Score versus Quality Score of Islamic banks Disclosure Performance

Comparison Between Ordinary & Quality SEGE								
N=34 Banks	ORDINARY Disclosure Score				QUALITY Disclosure Score			
Year	Avg. Score	Std. Dev.	Min	Max	Avg. Score	Std. Dev.	Min	Max
2010	22.6%	8.4%	11%	55%	37%	11.9%	18.3%	68.3%
2011	24.3%	8.8%	11%	54%	37.8%	14%	15%	81.7%
2012	25.1%	9.9%	13%	61%	38%	15.7%	15%	93.3%
2013	26.1%	9.8%	8%	57%	40.3%	13.1%	20%	78.3%
2014	26.7%	10.4%	8%	54%	41.8%	13.6%	18.3%	73.3%
5yrs Avg.	24.9%	9.5%	8 %	61%	39%	13.7%	15%	93.3%

Table 6.1 : Quality vs Level

Referring to table 6.1 above, it is apparent that both the ordinary and quality disclosure group have an increasing trend. While the disclosure is small overall in each year, it must be considered that Islamic banking is only 42 years old as an industry as of 2017 compared to the hundreds of years the conventional banking system has been established. Thus, the score is reasonable. The small increment every year is a positive indicator that this encouraging trend can ideally be maintained despite the ups and downs of the Islamic banking industry.

The score as a whole does not seem to have any contradictions between ordinary and quality disclosure as both are positive increments. Equally important, this piece of information informs of the general environment of Islamic bank disclosure activities in both countries (Malaysia and Bahrain). However, the results will be different when the countries are separated in section “6.4. Countries Range Comparison”. The reason that this thesis starts the explanation by referring to the whole rather than comparing the countries directly is to give an overview of the bigger picture of Islamic banking disclosure in general. This is because, by rank, Malaysia and secondly Bahrain have the greatest number of Islamic banks and institutions that support and facilitate the Islamic banking industry operating within each country compared to any other country in the world.

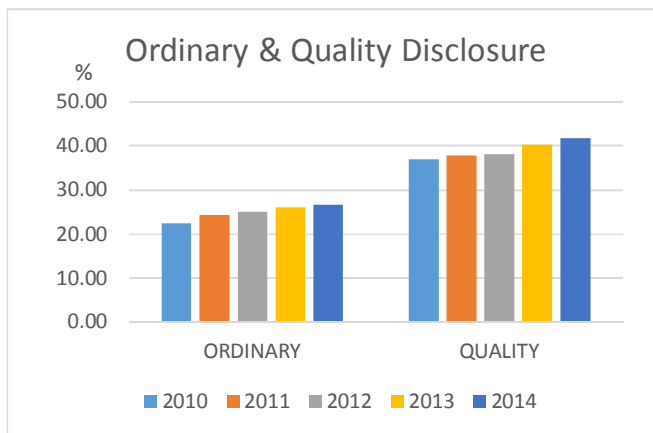


Figure 6.4: Ordinary vs Quality Bar Chart

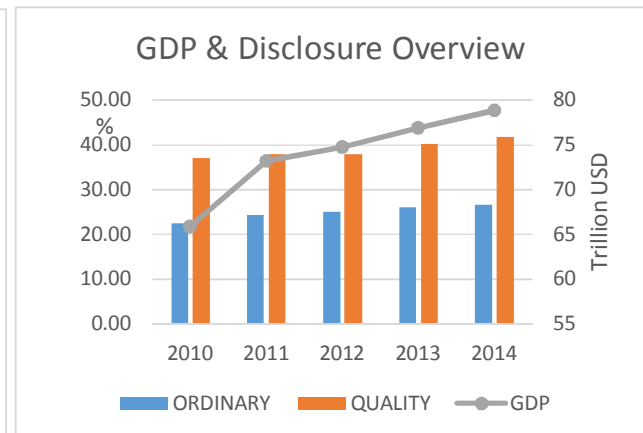


Figure 6.3: GDP & Disclosure Tend Comparison

Having considered the increasing trend of disclosure on both the ordinary and quality side of disclosure, these graphs show that, within the same period, the gross domestic product (GDP) also increases as a symbol of national competitiveness. The findings are consistent with the argument of Boulouta and Pitelis (2014) where they found that social responsibility is linked with national competitiveness such as GDP.

Nevertheless, this thesis tries to inform that, within the study period, the world economy is positive in nature and so the ordinary and quality disclosure scores are increasing. The positive trend of GDP and disclosure as a whole is maybe linked to the “end of recession and recovery of world economic crisis (December 2007 until June 2009)”, as informed by the National Bureau of Economic Research (2010).

Furthermore, on top of the world economic recovery, the period of 2010 until 2014 was a period where new regulations were introduced, took effect and were updated within the Islamic banking industry, such as the IFSB Shariah Governance 2009, AAOIFI updated standard 2010, BNM Shariah Governance Framework 2011, and Islamic Financial Services Act 2013. All the above factors and events may influence the disclosure trend as a whole. The next sub-section will enlighten the findings on disclosure score and volume.

6.3.2. Comparison between Score and Volume of Disclosure

6.3.2.5. Ordinary SEGE (Score Vs Volume)

N=34 Banks					ORDINARY DISCLOSURE VOLUME			
ORDINARY DISCLOSURE SCORE								
Year	Avg. Score	Std. Dev.	Min	Max	Avg. Vol	Std. Dev.	Min	Max
2010	22.6%	8.4%	11%	55%	48.9	33.1	15	209
2011	24.3%	8.8%	11%	54%	52.1	32.6	21	202
2012	25.1%	9.9%	13%	61%	53.3	41.9	15	268
2013	26.1%	9.8%	8%	57%	54	28.1	17	151
2014	26.7%	10.4%	8%	54%	57.3	30.5	12	147
5yrs Avg.	24.9%	9.5%	8%	61%	53.1	33.3	12	268

Table 6.2 : Ordinary (Score Vs Volume)

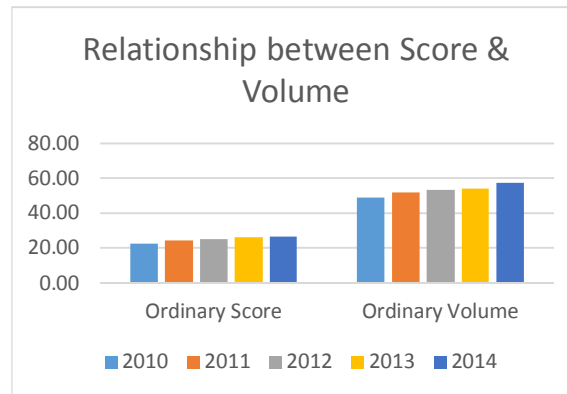


Figure 6.5: Relationship of Disclosure Score & Volume

The above table and chart clearly shows the increment of score and volume in disclosure. This verifies that disclosure score and volume are important observations in a research. Therefore, this thesis is designed to report volume findings as a complementary finding to score.

In this sub-section, the comparison between disclosure score and volume is made to prove and advocate that volume is still relevant in social disclosure research. Although, in general, volume does not capture the proportions and magnitudes of disclosure, it can give useful information that score cannot. In Islamic banking social reporting literature, one of the earliest studies on disclosure in Islamic banks by Baydoun and Willett (2000) adopted volume of words as its method. In the next sub-section, the volume is segregated into more detail and more valuable findings.

6.3.2.6. Quality SEGE (Score Vs Volume)

QUALITY DISCLOSURE SCORE					QUALITY DISCLOSURE VOLUME											
N=34 Banks	Score				Level_1 Disclosure				Level_2 Disclosure				Level_3 Disclosure			
Year	Avg. Score	Std. Dev.	Min	Max	Avg. Vol	Std. Dev.	Min	Max	Avg. Vol	Std. Dev.	Min	Max	Avg. Vol	Std. Dev.	Min	Max
2010	37.7%	11.9%	18.3%	68.3%	28.2	13.4	10	77	9.7	15.9	0	82	10.9	8.1	0	50
2011	37.8%	14%	15%	81.7%	31.1	12.2	15	76	8.8	15.6	0	74	12.2	9.3	1	52
2012	38%	15.6%	15%	93.3%	32.8	21.2	12	138	8.6	13.3	0	69	12.1	10.5	0	61
2013	40.3%	13.1%	20%	78.3%	31.1	12.5	13	77	8.8	11.6	0	47	14.1	12.8	1	74
2014	41.8%	13.6%	18.3%	73.3%	32.8	12.9	7	58	9.3	14.9	0	60	15.3	10	5	43
5yrs Avg.	39%	13.7%	15%	93.3%	31.2	14.8	7	138	9.0	14.2	0	82	12.9	10.3	0	74

Table 6.3: Quality (Score Vs Volume)

Focusing on the table in the previous page, as discussed previously, volume plays an important role in social reporting research that, with correct creativity, can produce a meaningful result for interpretation, especially in disclosure research. As shown in table 6.3, the quality score increases year-to-year while **level one** and **level two** varies between years. However, **level three** has a positive trend from 2010 to 2014 with a majority increment and minor decrease in 2012. Moreover, it is easily understood that **Level one** disclosure is better in number compared to **level two** and **level three** as disclosure goes down when strict conditions are applied.

On the contrary, **level two** is lower than **level three** disclosure where, generally, **level three** (evidence-based) disclosure will have been less disclosed. This is an important evidence that Islamic banks are either committed in providing **evidence** (Level Three) in disclosure or just provide **narrative description** (Level one) disclosure. In short, it may inform the thesis that it discloses well when they are doing something tangible or just use narratives without evidence when there is less to disclose. In the next page, a graph will be used to comprehend the information in table 6.3 above.

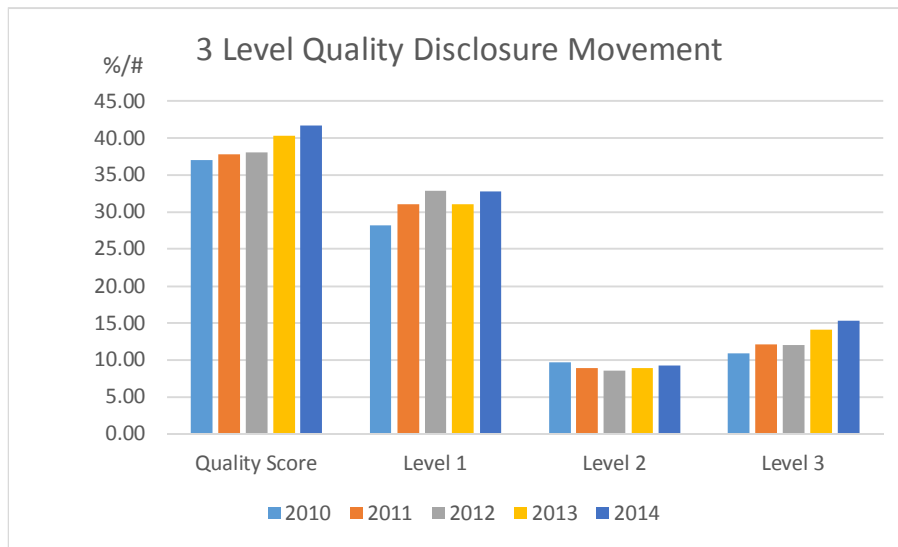


Figure 6.6: 3 Level Quality Disclosure Movement

The above chart is one of the valuable findings that shows the level and trend of quality disclosure as a whole and the segregation of the volume of disclosure by level **one**, **two** and **three**. Level **one** disclosure is normally associated with **legitimacy theory** and level **three** disclosure is associated with **stakeholder theory**. The banks that only **legitimise** themselves only disclose the information at level **one** while banks that care for **stakeholders** are normally motivated to disclose information at level **two** and **three**.

One of the encouraging findings is that **quality score** increases yearly even though the increase is small. Furthermore, **level three** disclosure also has a positive trend with a majority of the year increasing in volume. This positive information might signal the intention and effort done by Islamic banks towards their stakeholders. Overall, the distribution of **level one**, **two** and **three** disclosures explicitly informs that Islamic banks distribute their disclosure through various strategies for legitimacy purposes and for stakeholders.

Further findings will be illustrated in section “6.3.3. Top 10 Performer of Ordinary SEGE and Quality SEGE”.

6.3.3. Top 10 Performer of Ordinary SEGE and Quality SEGE

Top 10 Performers in ORDINARY & QUALITY SEGE												
Ranked	ORDINARY Score						QUALITY Score					
	Bank	Ctry	Avg. Score	Std. Dev.	Min	Max	Bank	Ctry	Avg. Score	Std. Dev.	Min	Max
1	BIMB	MY	56.2%	2.9%	54%	61%	BIMB	MY	78.3%	10.1%	68.3%	93.3%
2	B-RAKYAT	MY	41.4%	8.1%	34%	52%	B-RAKYAT	MY	65%	3.3%	60%	68.3%
3	BMMB	MY	38.8%	2.3%	36%	41%	BMMB	MY	63.3%	7.4%	55%	73.3%
4	IHIB-BH	BH	37.2%	3.6%	34%	42%	HLIB	MY	58.7%	5.8%	51.7%	66.7%
5	AFFIN ISLAMIC	MY	34.2%	3.8%	30%	40%	AFFIN ISLAMIC	MY	57.7%	4.7%	50%	61.7%
6	HLIB	MY	34%	8.9%	25%	45%	BIB-BH	BH	50.7%	6.2%	41.7%	58.3%
7	BIB-BH	BH	30%	4.1%	23%	33%	IHIB-BH	BH	49.3%	7.3%	40%	56.7%
8	ABCIB-BH	BH	28.8%	3.3%	23%	31%	PUBLIC-i	MY	43.3%	3.5%	38.3%	48.3%
9	BAB-BH	BH	28.4%	3.4%	23%	32%	ASBB-BH	BH	43%	3.8%	36.7%	46.7%
10	VCB-BH	BH	27.8%	1.1%	26%	29%	ABIB-BH	BH	41%	9.6%	28.3%	53.3%

Table 6.4: Top 10 Performing Banks Movement

Bank's Name : BIMB = Bank Islam Malaysia Berhad , B-RAKYAT = Bank Rakyat , BMMB = Bank Muamalat Malaysia Berhad , AFFIN ISLAMIC = Affin Islamic Bank , HLIB = Hong Leong Islamic Bank , PUBLIC-I = Public Islamic Bank. IHIB = Ihtimaar Islamic Bank , BIB-BH = Bahrain Islamic Bank , ABCIB = ABC Islamic Bank BAB-BH = Bank Al-Khair Bahrain , VCB-BH = Venture Capital Bank Bahrain , ASBB-BH = Al-Salam Bank , ABIB-BH = Al-Baraka Islamic Bank.

Avg.Score = Average Score, **Std.Dev.** = Standard Deviation, **Min** = Minimum , **Max** = Maximum

SEGE Score : Shariah , Social , Environmental , Governance & Ethics Score

Green Colour = Bank That Climbed-up Into Better Rank In terms Of Quality Disclosure Compared To Ordinary Disclosure

Red Colour = Bank That Falls-Down Into Lower Rank In terms of Quality Disclosure Compared to Ordinary Disclosure

Yellow Colour = 1- Bank That Out Of Rank When Goes To Quality Disclosure **OR** 2- Bank That Is Not In The Top 10 Rank Of Ordinary Disclosure But Ranked In Top 10 Quality Disclosure

In “Table 6.4: Top 10 Performing Banks Movement” from the previous page, the information reveals an interesting finding as it illustrates individual banks ranked by Ordinary and Quality disclosure. The table ranked the top ten banks according to **Ordinary** disclosure and **Quality** disclosure in order to compare the performance and differentiate the banks’ movement between ordinary and quality disclosure.

Perhaps, the most striking finding in table 6.4 is for the top three banks. The top three banks’ performance in ordinary disclosure maintained the same ranking in quality disclosure. However, there are banks that have dropped in rank when it came to quality disclosure (These banks are highlighted in **Red**). Furthermore, there are banks that climb the rankings, that is to say they are lower ranked in ordinary disclosure and higher ranked in quality disclosure (These banks are highlighted in **Green**). Moreover, there are banks that are ranked in ordinary disclosure but disappear totally in quality disclosure, and there are banks not ranked in an ordinary disclosure but ranked in quality disclosure (All these banks are highlighted in **Yellow**).

This finding is an intriguing discovery as we can watch the movement of banks’ “**commitment**” towards disclosure. It is possible that from this result, we can assume that there are **three types of banks** in disclosure. **Firstly**, banks (type-1) that maintain a balance in narrative and evidence in their disclosure (a balance between maintaining legitimacy and commitment towards stakeholders). **Secondly**, banks (type-2) that emphasise on narrative rather than evidence in their disclosure (concentrate on legitimacy). **Thirdly**, banks (type-3) that focus more on evidence in their disclosure (concentrate on stakeholder).

From the last page's categorisation, it will be useful to refer to the SEGE disclosure framework is explained in Figure 4.3: SEGE Disclosure Framework in Chapter 4. Even though banks that concentrate on evidence appear to be stakeholder-oriented, based on the findings, however, banks that balance both elements of legitimacy and stakeholder provide a higher degree of evidence in *ordinary* and *quality* disclosure (see table 6.4). The banks highlighted in **red** score higher in ordinary and quality disclosure compared to banks highlighted in **green**. There are several factor that may lead to this, such as the seniority of the banks and the type of the shareholder of the banks. The top three banks have a strong link with the government and have strong and big shareholders that are also linked with the government. For example, Bank Islam Malaysia Berhad (BIMB) is the first Islamic bank in Malaysia that has the luxury of "pioneering the way".

This bank became the pioneer and the first hope for a majority of Muslims in Malaysia for an alternative means of banking in 1983. The bank also had a social contract with society, and this social contract, during the 2010-2014 period, was at a satisfying level if compared to other Islamic banks in Malaysia. However, there are several dimensions and themes that need to be better addressed in their disclosure.

Next is a comparison of Bahrain's first Islamic bank, Bahrain Islamic Bank (BIB) established in 1979. Even though the establishment year is earlier than Malaysia's first Islamic bank, the ordinary and quality disclosure score is far behind Malaysia's first Islamic bank. This is a rather useful finding and suggests that age plays an important role in disclosure information as a whole, but it depends on other factors when it comes to each countries' differences. A deeper discussion on the differences in Malaysia and Bahraini Islamic banks will be discussed in section "6.4. Countries Range Comparison" and "Chapter 8 Thesis Discussion & Conclusion". Having understood the "*three types of banks*" and having witnessed the "*ranked movement*" in Islamic bank disclosure between ordinary and quality disclosure, it is useful to refer to the "commitment quadrant" in the next page.

6.3.4. Commitment Quadrant

Bank commitment towards ordinary and quality disclosure can be easily identified in the “commitment quadrant” below.

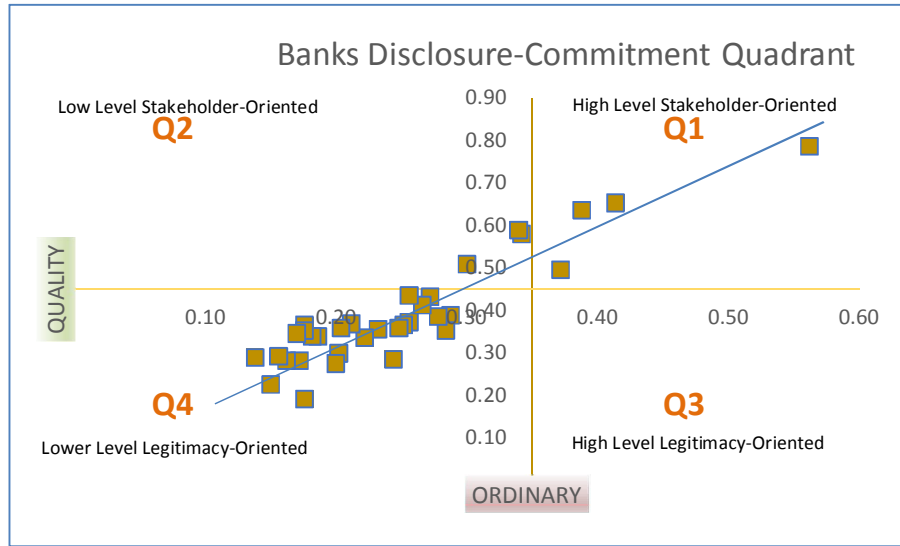


Figure 6.7: Disclosure Commitment Quadrant (Author)

Q1= Perform well in Quality and Ordinary Disclosure; **Q2**= Perform well in Quality Disclosure, under perform in Ordinary; **Q3**= Perform well in Ordinary Disclosure, underperform in Quality Disclosure; **Q4**= Underperform in Quality and Ordinary Disclosure

This finding has been programmed into a quadrant to display the Islamic banks' disclosure commitment. This quadrant was made to differentiate and appreciate the disclosure commitment by Islamic banks. As seen in figure 6.7 above, if a line is drawn to represent the data of the banks, it will represent a positive line. However, a majority of the banks fall under Quadrant-4, being lower in ordinary and quality score.

Moreover, there are three banks that are in Quadrant-2 and four banks in Quadrant-1. Interestingly, there are no banks in Quadrant-3 which also means no banks perform high in ordinary disclosure and lower in quality disclosure. Furthermore, the above quadrant shows that Islamic banks either perform well in both quality and ordinary disclosure or did not perform well in both disclosures. Only about 20.5 percent of Islamic banks achieve satisfactory levels of quality disclosure and this is 11.76 percent in ordinary disclosure.

The majority of Islamic banks in Quadrant-1 share the same characteristics such as having trusted names in the Islamic banking industry, seniority, and government-linked shareholders. All of these factors may influence the commitment and standard put by the bank's annual report preparer towards the information published in the annual report, and this has led to a balance between quality and ordinary disclosure.

The establishment of Islamic banks in a country depends on the belief in the importance of religion in every aspect of life. The establishment of the first Islamic bank both in Malaysia and in Bahrain was based on the belief by society that banking in accordance with their religion was an important aspect of the whole religion. Since banking according to religion was perceived to be an important value by society, it created a legitimacy pressure by the society towards Islamic banks. As the pioneer and senior Islamic bank in each country, the banks in Quadrant-1 and Quadrant-2 appear to provide more quality disclosure compared to others. In addition, the majority of them, 57.14 percent of Islamic banks, balance between quality and ordinary disclosure and only 42.85 percent concentrate on quality disclosure.

In this study, banks in Quadrant-1 are presumed to balance the disclosure information for the stakeholders and are legitimate. Meanwhile, Quadrant-2 focuses on the stakeholders more than legitimacy. Moreover, Quadrant-4 is on the lower spectrum of the legitimacy focus. However, no banks fall in Quadrant-3, which has a high level of concentration on legitimacy. In summary, based on the four quadrants, Islamic banks fall in between Quadrant-1, Quadrant-2 and Quadrant-3. It is noticed that a highly established Islamic bank with important history and aesthetic value tend to be in Quadrant-1.

In the next section "6.4. Countries Range Comparison", the countries' differences will be discussed in detail.

6.4. Countries Range Comparison

6.4.1. Differential Analysis for Malaysia and Bahrain

6.4.1.1. Normality Investigation

Previously, the thesis presented the descriptive findings of the disclosure as a whole. In order to observe the differences of the two countries' disclosure and statistically differentiate the two countries, the data needs to be test by a differential statistical analysis. However, to do this, the first step is to check normality of the data in order to be able to apply the correct statistical tools such as, for instance, the parametric and non-parametric test. Figure 6.8 below show a histogram of the two main data (Ordinary and Quality Score) disclosure. It is one of the many first steps among many indicators to evaluate whether the data is normally distributed or not.

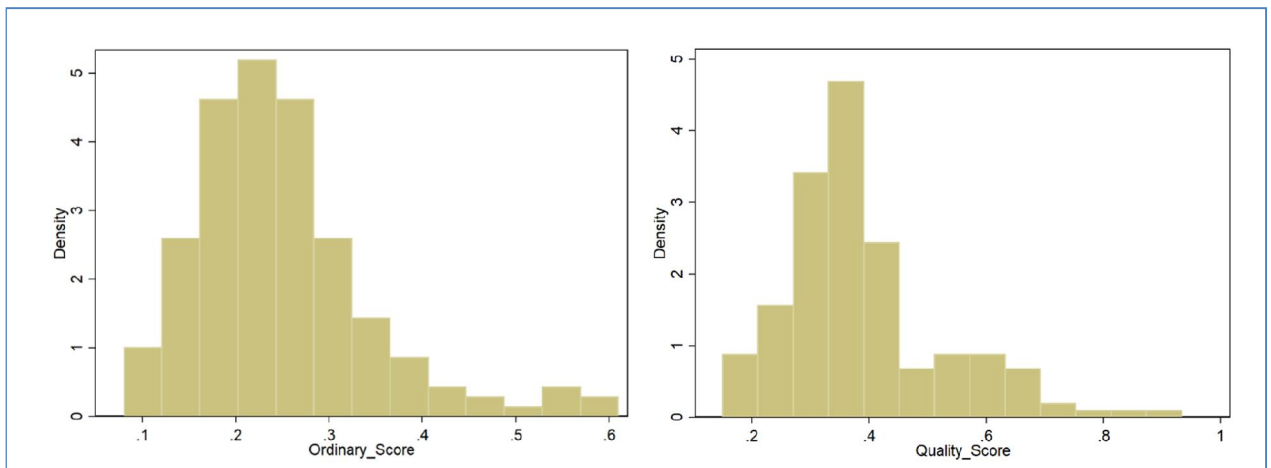


Figure 6.8 : Histogram for Preliminary Normality Indicator

Referring to figure 6.8 above, it seems that the data is not normally distributed as the tails are not balanced on both sides of the disclosure score (Ordinary and Quality). Therefore, this preliminary assumption will be further verified and tested with the Skewness-Kurtosis tests for Normality and Shapiro-Wilk W Test for Normal Data with the null hypothesis of the data being normal ($H_0=0$).

Skewness/Kurtosis tests for Normality						
variable	----- joint -----					Statistical Treatment
	Obs	Pr(Skewness)	Pr(Kurtosis)	Adj chi2(2)	Prob>chi2	
Quality	170	0.0000	0.0044	27.29	0.0000	*1*
Ordinary	170	0.0000	0.0004	34.37	0.0000	*1*
<u>Ordinary Score</u>						
D1-shariah	170	0.0004	0.2085	12.07	0.0024	*1*
D2-shariahgovernance	170	0.0094	0.0013	14.22	0.0008	*1*
D3-socialexternal	170	0.0000	0.0179	30.50	0.0000	*1*
D4-socialinternal	170	0.0000	0.0000	51.28	0.0000	*1*
D5-environment	170	0.0000	0.0000	.	0.0000	*1*
D6-ethics	170	0.0000	0.0748	18.80	0.0001	*1*
D7-governance	170	0.1965	0.2651	2.95	0.2287	*2*
<u>Quality Score</u>						
3Level Shariah	170	0.0026	0.3167	8.98	0.0112	*1*
3Level shariahgovernance	170	0.6404	0.0007	10.16	0.0062	*1*
3Level socialexternal	170	0.0010	0.0497	12.47	0.0020	*1*
3Level socialinternal	170	0.1425	0.0000	16.05	0.0003	*1*
3Level environment	170	0.0000	0.0000	.	0.0000	*1*
3Level ethics	170	0.0000	0.0000	48.15	0.0000	*1*
3Level governance	170	0.2512	0.0000	24.12	0.0000	*1*
	*1*Wilcoxon rank-sum (Mann-Whitney)					
	*2*Two-sample t-test with equal variances					

Table 6.5: Skewness-Kurtosis Test for Normality

Referring to table 6.5, all the joint prob>chi2 for the skewness-kortosis for ordinary and quality score is below 0.05, indicating that the data is not normal. Only one dimension (governance) in ordinary disclosure is above 0.005 with 0.2287 which indicates that the data is normal. Therefore, the data that is not normally distributed will use a non-parametric differential statistic tool [Wilcoxon rank-sum (Mann-Whitney)] in order to investigate the country differences in disclosure.

Moreover, in order to confirm the above normality test, another test named the Shapiro-Wilk W Test for Normal Data is used to check the normality of the data. The objective of the test is the same, which is to ensure that the correct tools are employed for the differential statistic test. This is explain in the next page.

Shapiro-Wilk WTest for Normal Data						
variable	Obs	W	V	z	Prob>z	Statistical Treatment
Quality Overall	170	0.92092	10.248	5.310	0.00000	*1*
Ordinary Overall	170	0.91248	11.341	5.541	0.00000	*1*
<u>Ordinary Score</u>						
D1-shariah	170	0.96598	4.408	3.385	0.00036	*1*
D2-shariahgovernance	170	0.96074	5.088	3.712	0.00010	*1*
D3-socialexternal	170	0.87673	15.973	6.323	0.00000	*1*
D4-socialinternal	170	0.88575	14.804	6.149	0.00000	*1*
D5-environment	170	0.78299	28.121	7.613	0.00000	*1*
D6-ethics	170	0.93770	8.073	4.766	0.00000	*1*
D7-governance	170	0.99005	1.289	0.580	0.28095	*2*
<u>Quality Score</u>						
3Level Shariah	170	0.97582	3.133	2.606	0.00458	*1*
3Level shariahgovernance	170	0.98251	2.266	1.867	0.03097	*1*
3Level socialexternal	170	0.96925	3.984	3.154	0.00080	*1*
3Level socialinternal	170	0.97156	3.685	2.976	0.00146	*1*
3Level environment	170	0.79716	26.284	7.459	0.00000	*1*
3Level ethics	170	0.88183	15.312	6.226	0.00000	*1*
3Level governance	170	0.93809	8.022	4.751	0.00000	*1*
	*1*Wilcoxon rank-sum (Mann-Whitney)					
	*2*Two-sample t-test with equal variances					

Table 6.6 : Shapiro-Wilk W Test for Normal Data

Referring to table 6.6, the Shapiro-Wilk W Test for Normal Data confirmed the Wilcoxon rank-sum (Mann-Whitney) where all the ordinary and quality score data was not normal except for the ordinary governance score. Therefore, all the non-normal data will be tested using a non-parametric test while only ordinary governance score data will use a parametric test. This is to enable the inference that the disclosure between the two countries are distinct to each other. Furthermore, it supports the descriptive statistic that is more subjective in nature, especially the 3 level disclosure. In the next section, the table summarising the test will be presented.

6.4.1.2. Significant Differences between Malaysia & Bahrain Ordinary and Quality Disclosure Dimensions

<i>Two-sample Wilcoxon rank-sum (Mann-Whitney)</i>						
Dimensions	Country	Obs	Rank Sum	Expected	Diff. Between Country	Prob > z
ORDINARY Disclosure						
SHARIAH	MY	90	8206	7695	No	0.1093
	BH	80	6329	6840		
SHARIAH GOVERNANCE	MY	90	9024	7695	Yes	0.0000
	BH	80	5511	6840		
SOCIAL EXTERNAL	MY	90	6679	7695	Yes	0.0013
	BH	80	7856	6840		
SOCIAL INTERNAL	MY	90	8896.5	7695	Yes	0.0001
	BH	80	5638.5	6840		
ENVIRONMENT	MY	90	8200	7695	Yes	0.0039
	BH	80	6335	6840		
ETHICS	MY	90	5992.5	7695	Yes	0.0000
	BH	80	8542.5	6840		
<i>Two-sample t test with equal variances</i>			Mean	Std.Err	Std.Dev	95%C.I
GOVERNANCE	MY	90	.5386667	.0218331	.207127	.4952848
	BH	80	.6145	.0175058	.1565765	.5796556
t = 2.6664; degree of freedom =168						Ha: diff != 0 Pr(T > t) = 0.0084
<i>Two-sample Wilcoxon rank-sum (Mann-Whitney)</i>						
Dimensions	Country	Obs	Rank Sum	Expected	Diff. Between Country	Prob > z
QUALITY Disclosure						
3-LEVEL SHARIAH	MY	90	9094	7695	Yes	0.0000
	BH	80	5441	6840		
3-LEVEL SHARIAH GOVERNANCE	MY	90	10426	7695	Yes	0.0000
	BH	80	4109	6840		
3-LEVEL SOCIAL EXTERNAL	MY	90	6838	7695	Yes	0.0063
	BH	80	7697	6840		
3-LEVEL SOCIAL INTERNAL	MY	90	8629.5	7695	Yes	0.0021
	BH	80	5905.5	6840		
3-LEVEL ENVIRONMENT	MY	90	8206.5	7695	Yes	0.0035
	BH	80	6328.5	6840		
3-LEVEL ETHICS	MY	90	6342	7695	Yes	0.0000
	BH	80	8193	6840		
3-LEVEL GOVERNANCE	MY	90	6406	7695	Yes	0.0000
	BH	80	8129	6840		

Table 6.7: Mann-Whitney & Two-Sample t-test

Referring to table 6.7, all the prob>|z| are below 0.05 which reject the null hypothesis (Ho=that there are no differences) in respect of the two countries. Therefore, the disclosure dimensions from quality and ordinary disclosure show that the disclosures are distinct to each country, except for the Shariah dimension. This serves as evidence that the majority of the disclosure dimensions in each country are

different to each other. In the next section, the investigation will find high performance banks in both countries to evaluate whether there is a significant difference in disclosure by both countries.

6.4.1.3. Ordinary Disclosure Differences between High Performance Banks

Two-sample Wilcoxon rank-sum (Mann-Whitney) test (Ordinary Disclosure)			
High Performance Disclosure	obs	rank sum	expected
Malaysia	53	2017.5	2438
Bahrain	38	2168.5	1748
combined	91	4186	4186
unadjusted	variance	15440.67	
adjustment	for ties	-84.96	
adjusted	variance	15355.70	
Ho: $\text{segesc}^e(\text{mybhse}^e==\text{BH}) = \text{segesc}^e(\text{mybhse}^e==\text{MY})$			
$z = -0.621$			
Prob > z = 0.0007 There is a difference between high performance bank in disclosure in the two countries			

Table 6.8: Differences in High Performance Disclosure Banks - Ordinary

Table 6.8 above provides evidence that there is a difference in disclosure by the performing banks in ordinary disclosure in both countries. This signals, in Malaysian and Bahraini Islamic banks, that performance in disclosure is distinct to each other.

6.4.1.4. Quality Disclosure Differences between High Performance Banks

Two-sample Wilcoxon rank-sum (Mann-Whitney) test (Quality Disclosure- Malaysia & Bahrain)			
High Performance Disclosure	obs	rank sum	expected
Malaysia	48	1358.5	1780
Bahrain	40	2557.5	2136
combined	88	3916	3916
unadjusted	variance	14240.00	
adjustment	for ties	-126.65	
adjusted	variance	14113.35	
Ho: $\text{threel}^e(\text{mybhhi}^e==0) = \text{threel}^e(\text{mybhhi}^e==1)$			
$z = -3.548$			
Prob > z = 0.0004 There is a difference between the high performance bank in disclosure in the two countries			

Table 6.9: Differences in High Performance Disclosure Banks - Quality

Table 6.9 provides statistical evidence that the quality disclosure by the performing banks in both countries are distinct in nature. This evidence will later support the findings in section 6.4.3 country's top 10 performing bank movement.

6.4.2. Comparison of Ordinary Score & Volume (Malaysia Vs Bahrain)

ORDINARY DISCLOSURE SCORE								
	Malaysia				Bahrain			
Year	Avg. Score	Std. Dev.	Min	Max	Avg. Score	Std. Dev.	Min	Max
2010	22.8%	10.6%	11%	55%	22.3%	5.3%	12%	35%
2011	23.3%	10.8%	11%	54%	25.4%	6.1%	15%	40%
2012	24.9%	12.3%	15%	61%	25.3%	6.9%	13%	42%
2013	27.2%	11.9%	15%	57%	24.7%	6.8%	8%	35%
2014	27.8%	12.9%	14%	54%	25.4%	6.6%	8%	34%
5yrs Avg.	25.2%	11.7%	11%	61%	24.6%	6.3%	8%	42%
N	18 Banks				16 Banks			

Table 6.10: Ordinary SEGE Score (Malaysia Vs Bahrain)

ORDINARY DISCLOSURE VOLUME										
	Malaysia					Bahrain				
Year	Avg. Vol	Total Vol.	Std. Dev.	Min	Max	Avg. Vol	Total Vol.	Std. Dev.	Min	Max
2010	51.8	933	44.6	15	209	45.6	729	11.9	21	58
2011	53.8	967	42.7	21	202	50.2	804	16.4	28	96
2012	59.7	1075	55.6	25	268	46.2	744	16.4	15	82
2013	58.3	1050	35.4	26	151	49.1	786	16.5	17	88
2014	63.8	1149	38.5	24	147	50	800	16.1	12	70
5yrs Avg.	57.5	1034.8	43.1	15	268	48.2	768.6	15.3	12	96
N	18 Banks					16 Banks				

Table 6.11: Ordinary SEGE Disclosure Volume (Malaysia Vs Bahrain)

Country's Name: **Ctry** = Country, **MY** = Malaysia, **BH** = Bahrain
Avg. Vol= Average Volume, **Std. Dev.** = Standard Deviation, **Min** = Minimum, **Max** = Maximum
SEGE Score : Shariah , Social , Environmental , Governance & Ethics Score

Table 6.10 and Table 6.11 provide a summary of the statistics for the ordinary disclosure score and volume. This is one important finding to show that disclosure volume plays as important a role as score. This study tries to emphasise that, apart from disclosure index score, volume is considered an important tool to complement the index score.

It is established that index score has been used systematically in the literature to replace volume from the previous literature, as index scores show a proportion which are more representative of disclosure performance. Moreover, volume is used as a secondary replicability test to confirm the index score, as suggested by Krippendorff (2012). As proof and explanation, the variance between the score and volume in table 6.10 and 6.11 did not differ much and has the same pattern for both countries. Moreover, any huge amount of discrepancy between the score and volume signals that the results are less reliable and need further explanation to strengthen the findings.

Looking at table 6.10, Malaysian Islamic banks are more consistent in their disclosure score. The score increases from year to year while Bahraini Islamic banks appear to fluctuate. Even though one might argue that the disclosure score is relatively small in number, this is only because the checklist considers the harmonisation of Maali et al. (2006), Haniffa and Hudaib (2007) and Belal et al. (2014). Furthermore, the checklist also includes elements from reputable international bodies such as the Accounting and Auditing Organisation for Islamic Financial Institution (AAOIFI), Global Reporting Initiative (GRI), Organisation for Economic Co-operation and Development (OECD), and Centre for Social and Environmental Accounting Research (CSEAR).

A comparison of the two results reveals the pattern of disclosure by the two countries. The difference in regulatory environment and society's cultural setting may explain these differences. As discussed in the background part, the two countries have distinct characteristics that may lead to different disclosure commitments. This result is an evidence of that.

Moving further, in the next section the quality disclosure for both countries will be discussed.

6.4.3. Comparison of Quality Score & Volume (Malaysia Vs Bahrain)

QUALITY DISCLOSURE SCORE								
Year	Malaysia				Bahrain			
	Avg. Score	Std. Dev.	Min	Max	Avg. Score	Std. Dev.	Min	Max
2010	38.3%	14.4%	18.3%	68.3%	35.5%	8.4%	20%	53.3%
2011	39.2%	17.6%	15%	81.7%	36.3%	8.8%	25%	56.7%
2012	40.3%	19.8%	15%	93.3%	35.5%	9.1%	18.3%	56.7%
2013	44.6%	15.5%	21.7%	78.3%	35.5%	7.7%	20%	48.3%
2014	45%	16.2%	18.3%	73.3%	38.1%	9.1%	21.7%	58.3%
Syrs Avg.	41.5%	16.7%	15%	93.3%	36.2%	8.5%	18.3%	58.3%
N	18 Banks				16 Banks			

Table 6.12: Quality SEGE Disclosure Score (Malaysia Vs Bahrain)

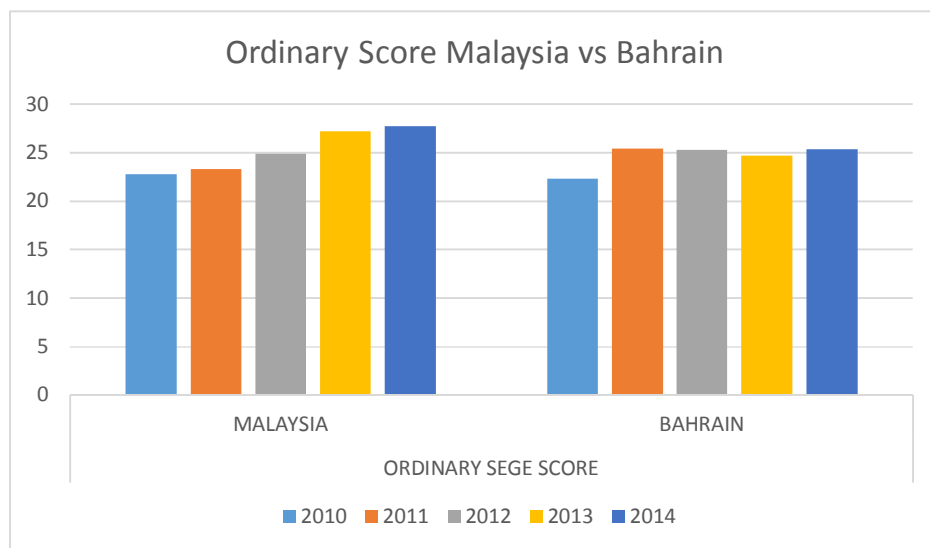


Figure 6.9: Bar Chart Malaysia vs Bahrain Ordinary Score

Country's Name: **Ctry** = Country , **MY** = Malaysia , **BH** = Bahrain
Avg. Vol= Average Volume, **Std. Dev.** = Standard Deviation, **Min** = Minimum , **Max** = Maximum
SEGE Score : Shariah , Social , Environmental , Governance & Ethics Score

These results further support the findings in the ordinary score in the last two pages in table 6.10, where the pattern is consistent in Malaysian Islamic banks and fluctuates in Bahraini Islamic banks. Furthermore, it also confirms that the previous ordinary finding has a connection with quality disclosure and a close relation with country characteristics.

In the quality disclosure, Malaysian Islamic banks score positively consistent and increment in both quality and ordinary disclosure from 2010 to 2014. However, Bahraini Islamic banks have an inconsistent trend in quality score and remain the same for ordinary score, apart from one static score in 2013. Figure 6.9 clearly demonstrates the bar chart movement of both countries. The difference between these two countries is distinct, where Malaysia consistently increases even though in small increments, and Bahrain varies throughout 2010 to 2014.

Referring to table 6.12, from 2010 to 2014, Malaysian Islamic banks increased by a total of 7 percent in quality disclosure while Bahrain increased by only 3 percent between those years. It can be concluded that Malaysian Islamic banks are more committed and consistent in nature compared to Bahrain Islamic banks. The reason for this may be explained by the countries' organisational support, such as with institutions that support the growth of Islamic banks from *four perspectives*, namely that of strong government and legislature, training and education, a strong-willed central banker and standard bodies, and markets and clients. The quadrants for the four perspectives will be explained further in the discussion section "6.6 Summary and Conclusion" to clearly display the difference between the Malaysian and Bahraini model of Islamic banking.

In the next page, the difference between Malaysian and Bahraini Islamic banks is further exposed by the distinctive characteristics between them by observing the quality disclosure in the three Level disclosure matrix.

QUALITY DISCLOSURE VOLUME																
Year	MALAYSIA & BAHRAIN															
	Level_1 Disclosure						Level_2_Disclosure					Level_3_Disclosure				
	Ctry	Avg. Vol	Total Vol.	Std. Dev.	Min	Max	Avg. Vol	Total Vol.	Std. Dev.	Min	Max	Avg. Vol	Total Vol.	Std. Dev.	Min	Max
2010	MY	27.2	491	15.9	10	77	11.5	206	20.7	0	82	13.1	236	9.9	5	50
	BH	29.4	470	10.4	15	55	7.7	123	7.8	0	25	8.5	136	4.8	0	17
2011	MY	27.9	503	13.9	15	76	11.3	202	19.9	0	74	14.6	262	11.4	3	52
	BH	34.6	554	9.1	20	54	6.1	98	8.5	0	36	9.5	152	5.2	1	20
2012	MY	33.2	598	27.7	15	138	11.1	200	17.3	0	69	15.4	277	12.9	3	61
	BH	32.4	519	10.9	12	54	5.7	92	5.5	0	23	8.3	133	5	0	18
2013	MY	30.4	552	14.4	15	77	9.3	168	12	0	39	18.6	330	16	7	74
	BH	31.9	510	10.3	13	48	8.3	133	11.4	0	47	8.9	143	4.1	1	15
2014	MY	32.1	577	13.1	13	58	12.8	230	19.4	0	60	19	342	12	8	43
	BH	33.6	537	13	7	50	5.3	85	5.6	0	23	11.1	178	4.5	5	20
5yrs Avg.	MY	30.2	544.2	17.6	10	138	11.2	201	17.8	0	82	16.1	289	12.5	3	74
	BH	32.4	518	10.7	7	55	6.6	106	7.9	0	47	9.3	148.4	4.7	0	20

Table 6.13: Quality SEGE Disclosure Volume (Malaysia Vs Bahrain)

Country's Name: Ctry = Country , MY = Malaysia , BH = Bahrain, Avg.Vol= Average Volume, Std.Dev. = Standard Deviation, Min = Minimum , Max = Maximum, SEGE Score : Shariah , Social , Environmental , Governance & Ethics Score

As can be seen in table 6.13 above, level one disclosure has been dominated by Bahraini Islamic banks for every year between 2010 to 2014. The average volume of disclosure in level one by Bahrain is higher than Malaysia in all years except in 2012. However, the results change significantly in level two disclosure where Malaysian Islamic banks dominate a higher average volume in all years. Another important finding in this research is that the average score of **level three** by Malaysian Islamic banks is higher than Bahrain Islamic banks and consistently increases throughout the years 2010 to 2014. This finding supports the argument that countries with top-down approaches to the Islamic banking movement provide more quality disclosure compared to ones with bottom-up movement. This table also provides proof that volume can capture information content 'quality' at the same standard as an index if not at a more superior level. This is a breakthrough as earlier research like Wiseman (1982) employed a two dimensional index which has been argued by

Beck et al. (2010) as scoring for information content 'quality'.

The research on 'quality' corporate disclosure can be traced back to 1971 in a study by Singhvi and Desai (1971) where they found that, with an increase in stockholders, a company is more likely to disclose extra information because of the additional consciousness towards social responsibility compared to other corporations that have a small number of stockholders. Furthermore, the study of Beck et al. (2010) developed a better method to capture the information content 'quality'. This thesis improves upon the idea of having the three steps into the more advanced method of 3 levels of disclosure where the results are presented in a volume and quality index compared to only the volume index in Beck et al. (2010). Moreover, this 3 level method differed from Beck et al. (2010) by including graphic and spectrums in each level of coding. This has been explained earlier in the methodology section '5.3.7.1. The 3 Level Procedure (Quality Score)'. The figure below demonstrates the property of volume and score that this method of coding can produce. The blue line is the average percentage for 3 level score and the bar chart represents the volume of each level.

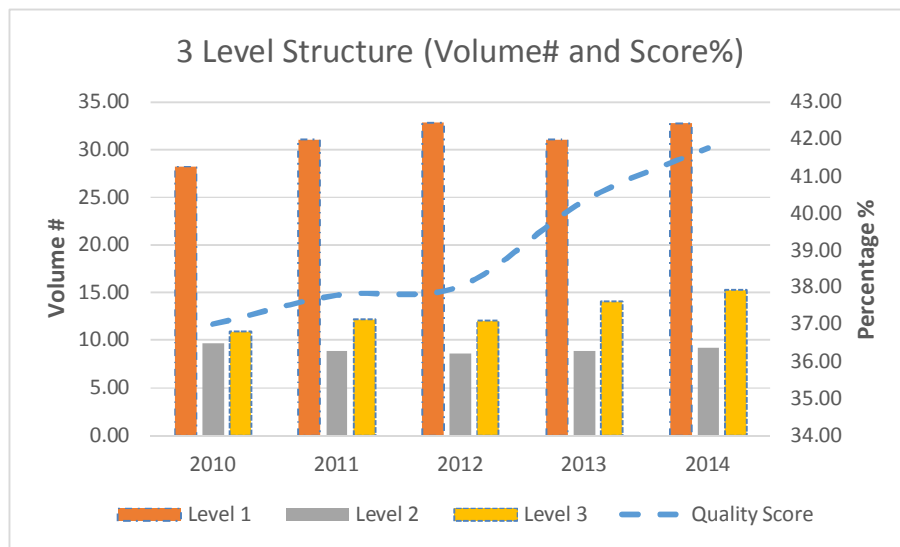


Figure 6.10: 3 Level Structure (Volume# and Score %)

In the next page, one of the thesis' intriguing findings involving the comparison of the performance of each bank in the two countries will be elaborated in detail.

6.4.4. Country's Top 10 Performing Bank in Ordinary & Quality SEGE Disclosure

6.4.4.1. Top Banks-Ordinary Disclosure

TOP 10 ORDINARY DISCLOSURE SCORE (Malaysia Vs Bahrain)										
Rank	Malaysia					Bahrain				
	Bank	Avg. Score	Std. Dev.	Min	Max	Bank	Avg. Score	Std. Dev.	Min	Max
1	BIMB	56.2%	2.9%	54%	61%	IHIB-BH	37.2%	3.6%	34%	42%
2	B-RAKYAT	41.4%	8.0%	34%	52%	BIB-BH	30%	4.1%	23%	33%
3	BMMB	38.8%	2.3%	36%	41%	ABCIB-BH	28.8%	3.3%	23%	31%
4	AFFIN-i	34.2%	3.8%	30%	40%	BAB-BH	28.4%	3.4%	23%	32%
5	HLIB	34%	8.9%	25%	45%	VCB-BH	27.8%	1.1%	26%	29%
6	RHIB	25.6%	2.6%	23%	29%	ASBB-BH	27.2%	2.9%	23%	31%
7	PUBLIC-i	25.6%	3.6%	21%	30%	ABIB-BH	26.6%	2.5%	25%	31%
8	AM-i	23.2%	2.2%	21%	26%	GFH-BH	25.2%	1.9%	22%	27%
9	OCBC AL-AMIN	21.2%	2.9%	17%	25%	IIB-BH	24.8%	4.3%	18%	29%
10	KFHMB	18.6%	3.5%	15%	24%	KFH-BH	24.4%	2.5%	22%	28%

Bank's Name : BIMB = Bank Islam Malaysia Berhad , B-RAKYAT = Bank Rakyat , BMMB = Bank Muamalat Malaysia Berhad , AFFIN-i = Affin Islamic Bank , HLIB = Hong Leong Islamic Bank , RHIB = Rashid Hussein Islamic Bank , PUBLIC-I = Public Islamic Bank , AM-i = Arab Malaysian Islamic Bank , OCBC-AL-AMIN= Oversea-Chinese Banking Corporation Al Amin , KFMB = Kuwait Finance House Malaysia . IHIB = Ihtimaar Islamic Bank , BIB-BH = Bahrain Islamic Bank , ABCIB = ABC Islamic Bank BAB-BH = Bank Al-Khair Bahrain , VCB-BH = Venture Capital Bank Bahrain , ASBB-BH = Al-Salam Bank , ABIB-BH =Al-Baraka Islamic Bank Bahrain , GFH-BH = Gulf Finance House , IIB-BH = International Investment Bank , KFHB = Kuwait Finance House Bahrain

Avg. Score = Average Score, **Std. Dev.** = Standard Deviation, **Min** = Minimum , **Max** = Maximum

SEGE Score: Shariah , Social , Environmental , Governance & Ethics Score

Referring to table 6.14 within the ordinary score, Malaysian Islamic banks' top 5 performers lead the score while Bahraini bank's highest score, if competing within the Malaysian circle of Islamic banks, would only gain the 4th place. This is certainly one of the more important findings and shows that, even though Bahrain is the leading country in the Middle East for the Islamic banking industry and Malaysia is one for the Far East, their disclosure commitments are distinctive to each other by a huge gap. Thus, country socio-politics, culture, financial environment setting, regulatory quality, and the religious setting of a country may affect the countries' disclosures. These entire factors are discussed in the discussion section and are proof of the regulatory quality and religious setting given in chapter 7.

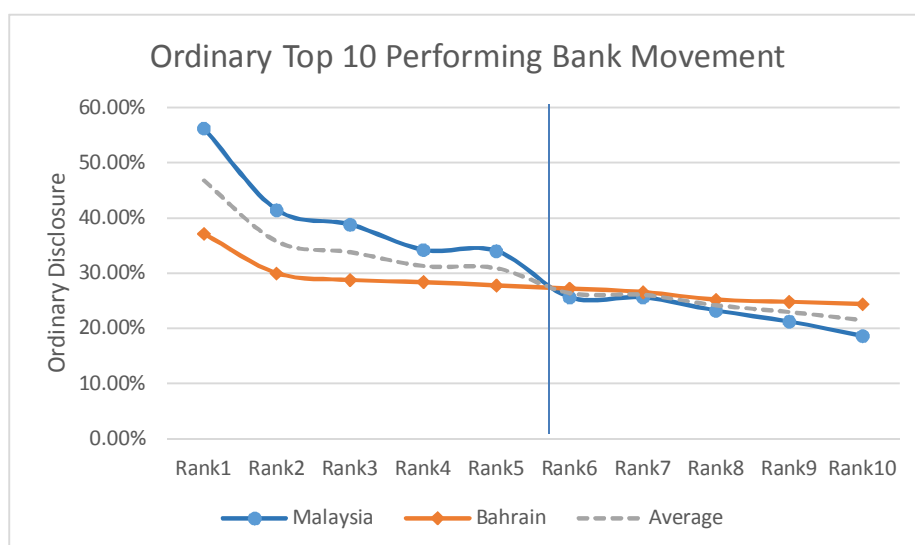


Figure 6.11: Rank Movement by Country

Comparing the two results on figure 6.11 reveals an interesting trend for the two countries. Interestingly, after rank five, Malaysian Islamic banks start performing below their counterparts in Bahrain. This may signal that there are banks that are really committed and there are banks that perform below normal average disclosure.

What is important to note in figure 6.11 is that the top five Islamic banks in Malaysia score above average and Bahraini Islamic banks score below average while rank 6 to rank 10 Bahraini Islamic banks score above average and Malaysian Islamic banks score below average. However, there is no huge gap between Bahraini and Malaysian Islamic banks below rank 5 with average disclosure. On the other hand, from rank 5 to rank 1, there is a huge and consistent gap in average disclosure.

The top five ranked Islamic banks in Malaysia performing above average disclosure while the opposite being true for Bahrain may signal that, in Ordinary score, the top five Islamic banks in Malaysia are better compared to Bahraini Islamic banks. To prove this further, a deeper observation into quality disclosure needs to be exposed and explained in the next page's table and figures.

6.4.4.2. Top Banks-Quality Disclosure

TOP 10 QUALITY DISCLOSURE SCORE (Malaysia Vs Bahrain)										
Rank	Malaysia					Bahrain				
	Bank	Avg.Score	Std. Dev.	Min	Max	Bank	Avg.Score	Std. Dev.	Min	Max
1	BIMB	78.3%	10.1%	68.3%	93.3%	BIB-BH	50.7%	6.2%	41.7%	58.3%
2	B-RAKYAT	65%	3.3%	60%	68.3%	IHIB-BH	49.3%	7.32%	40%	56.7%
3	BMMB	63.3%	7.4%	55%	73.3%	ASBB-BH	43%	3.8%	36.7%	46.7%
4	HLIB	58.7%	5.8%	51.7%	66.7%	ABIB-BH	41%	9.5%	28.3%	53.3%
5	AFFIN-i	57.7%	4.7%	50%	61.7%	ABCIB-BH	38.7%	2.5%	35%	41.7%
6	PUBLIC-i	43.3%	3.5%	38.3%	48.3%	VCB-BH	38.3%	2%	36.7%	41.7%
7	RHIB	37%	5.7%	31.7%	46.7%	GFH-BH	36.3%	1.8%	33.3%	38.3%
8	OCBC AL-AMIN	36.7%	5.5%	31.7%	43.3%	IIB-BH	35.7%	3%	31.7%	40%
9	AL-RAJHI	36.3%	5.9%	28.3%	45%	FEB-BH	35.7%	2.5%	33.3%	40%
10	AM-i	35.3%	4.1%	28.3%	38.3%	BAB-BH	35%	7.4%	26.7%	45%

Table 6.15: Quality Disclosure Performance (Malaysia Vs Bahrain)

Bank's Name : **BIMB** = Bank Islam Malaysia Berhad , **B-RAKYAT** = Bank Rakyat , **BMMB** = Bank Muamalat Malaysia Berhad , **AFFIN-i** = Affin Islamic Bank , **HLIB** = Hong Leong Islamic Bank , **PUBLIC-I** = Public Islamic Bank , **RHIB** = Rashid Hussein Islamic Bank , **OCBC-AL-AMIN**= Oversea-Chinese Banking Corporation Al Amin , **AL-RAJHI** = Al- Rajhi Bank Malaysia , **AM-i** = Arab Malaysian Islamic Bank . **BIB-BH** = Bahrain Islamic Bank , **IHIB** = Ihtimaar Islamic Bank , **ASBB-BH** = Al-Salam Bank , **ABIB-BH** =Al-Baraka Islamic Bank Bahrain , **ABCIB** = ABC Islamic Bank , **VCB-BH** = Venture Capital Bank Bahrain , **GFH-BH** = Gulf Finance House , **IIB-BH** = International Investment Bank , **FEB-BH** First Energy Bank , **BAB-BH** = Bank Al-Khair Bahrain .

Avg.Score = Average Score, **Std.Dev.** = Standard Deviation, **Min** = Minimum , **Max** = Maximum

SEGE Score : Shariah, Social , Environmental , Governance & Ethics Score

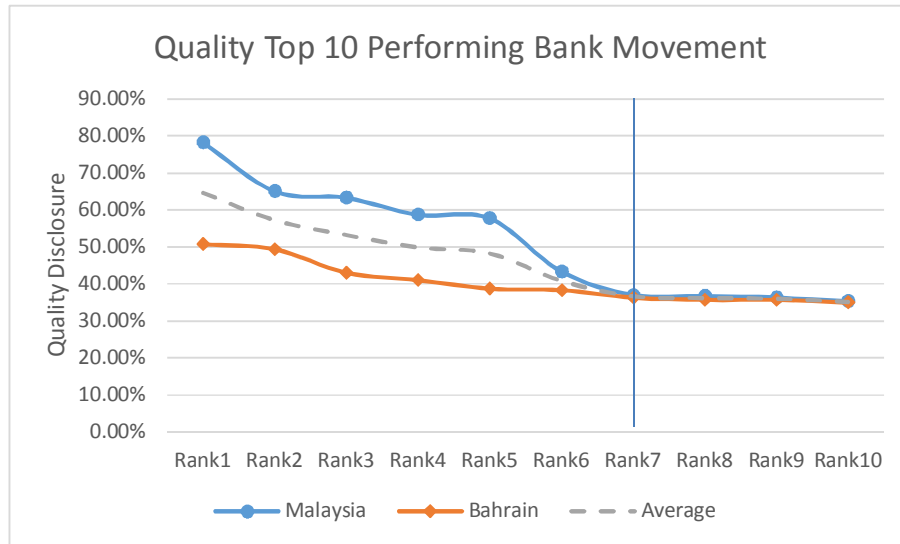


Figure 6.12: Quality Top 10 Performing Bank Movement

As discussed in the methodology part, the quality score is a method to enhance the ordinary score and can be used as a “double checker” for the ordinary score. Hence, to deepen the understanding of the data and to prove the superiority of the top 5 Islamic banks in Malaysia, table 6.16 and figure 6.17 will be the references.

What stands out in table 6.15 is the huge difference in quality score between Malaysia and Bahrain. This is obvious given that 50.7% as the first place in Bahrain corresponds to the sixth place in Malaysia. Furthermore, the top 5 banks in Malaysia score higher than even the bank in the first place in Bahrain. However, this time, the last 5 Islamic banks in Malaysia maintain a superior ranking compared to ordinary score where before the last five banks scored below Bahraini Islamic banks.

A comparison of the two results in figure 6.12 quality score and figure 6.11 ordinary score reveals that the top 5 Islamic banks in Malaysia perform better in ordinary and quality score. This may suggest that these Islamic banks signal their accountability to stakeholders by responding to many aspects of stakeholders while also taking good care of the social contract between the banks and society. This is a strong argument as the Islamic banks’ annual report has been through a rigorous checklist and 3 level marking to ensure that the result is consistent and reliable.

The next page will present a deeper analysis of bank movement in quality and ordinary disclosure.

6.4.4.3. Malaysia Top 10 Performing Bank Movement

Top 10 Performers in Malaysia (Ordinary Vs Quality)										
Rank	Ordinary SEGE Score					Quality SEGE Score				
	Bank	Avg. Score	Std. Dev.	Min	Max	Bank	Avg. Score	Std. Dev.	Min	Max
1	BIMB	56.2%	2.9%	54%	61%	BIMB	78.3%	10.1%	68.3%	93.3%
2	B-RAKYAT	41.4%	8%	34%	52%	B-RAKYAT	65%	3.3%	60%	68.3%
3	BMMB	38.8%	2.3%	36%	41%	BMMB	63.3%	7.4%	55%	73.3%
4	AFFIN ISLAMIC	34.2%	3.8%	30%	40%	HLIB	58.6%	5.8%	51.7%	66.7%
5	HLIB	34%	8.9%	25%	45%	AFFIN ISLAMIC	57.7%	4.6%	50%	61.7%
6	RHIB	25.6%	2.6%	23%	29%	PUBLIC-i	43.3%	3.5%	38.3%	48.3%
7	PUBLIC-i	25.6%	3.6%	21%	30%	RHIB	37%	5.7%	31.7%	46.7%
8	AM-i	23.2%	2.2%	21%	26%	OCBC-AL-AMIN	36.7%	5.5%	31.7%	43.3%
9	OCBC-AL-AMIN	21.2%	2.9%	17%	25%	AL-RAJHI-MY	36.3%	5.9%	28.3%	45%
10	KFHMB	18.6%	3.5%	15%	24%	AM-i	35.3%	4.1%	28.3%	38.3%

Table 6.16: Malaysia, Bank Level Difference (Ordinary Vs Quality)

Bank's Name : BIMB = Bank Islam Malaysia Berhad , B-RAKYAT = Bank Rakyat , BMMB = Bank Muamalat Malaysia Berhad , AFFIN ISLAMIC = Affin Islamic Bank , HLIB = Hong Leong Islamic Bank , RHIB = Rashid Hussein Islamic Bank , PUBLIC-I = Public Islamic Bank , AM-i = Arab Malaysian Islamic Bank , OCBC-AL-AMIN= Oversea-Chinese Banking Corporation Al Amin, KFHMB = Kuwait Finance House Malaysia Berhad .

Avg. Score = Average Score, **Std. Dev.** = Standard Deviation, **Min** = Minimum , **Max** = Maximum

SEGE Score : Shariah , Social , Environmental , Governance & Ethics Score

GREEN Colour = Bank that climbed up into better rank in terms of Quality Disclosure compared to Ordinary Disclosure

RED Colour = Bank that fell down into a Lower Rank in terms of Quality Disclosure compared to Ordinary Disclosure

YELLOW Colour = 1- Bank that is Out Of Rank in Quality Disclosure **OR** 2- Bank That is not In the top 10 rank of Ordinary Disclosure but is ranked in top 10 Quality Disclosure

As can be seen from table 6.16, what is striking about the figures in the table is the movement of the banks from ordinary score to quality score. Some banks stay at the same place while some climb up and some climb down. In the Malaysian case, there are some striking findings where the top 3 Islamic banks stay in exactly the same place without any movement in ordinary and quality disclosure where, normally, a movement would be expected. These findings may suggest that the top 3 Islamic banks are the best of all the banks in the study.

The top 3 Islamic banks are the Islamic banks that have a valuable history and have a close relationship with society. Bank Islam Malaysia Berhad (BIMB) was the first Islamic bank established in Malaysia and Bank Rakyat (B-Rakyat) was the first Islamic bank based on the cooperative scheme. Moreover, Bank Muamalat was the first Islamic bank to emerge from society after the collapse of Bumiputera Bank, which was the largest and only indigenous people's bank (Utusan, 2001).

All these banks have a close relationship with society, which makes them not just take care of the social contract between them and society as a means of legitimacy but go beyond by addressing more complex ordinary and quality disclosure themes in many stakeholder-related issues. The disclosure of these three Islamic banks is at least consistent with the rank in each ordinary and quality disclosure. The three banks' disclosure also contain the use of more graphics and statistics. The effort made by these Islamic banks clearly supports the development of stakeholder theory's movement in the ethical branch of the stakeholder.

Moving further, there are Islamic banks in **red** which indicate that, in terms of quality disclosure, the banks' ranks have dropped. Moreover, Islamic banks in **green** indicate that the Islamic banks have climbed the rank in quality disclosure. Furthermore, **yellow** indicates that the Islamic banks are listed in quality disclosure without having been ranked in the top 10 ordinary disclosure and vice versa.

In the Malaysian context, referring to table 6.16, three Islamic banks in **red** are ranked high in ordinary disclosure but dropped a rank in quality disclosure. This means that in terms of ordinary disclosure, in

adhering to the checklist, the Islamic banks performed well. However, the Islamic banks do not provide enough evidence of 3 level disclosure in the annual report. This thesis argues that Islamic banks that dropped a rank in quality disclosure are not up to the stakeholder-accountability standard. However, they might still fall into the stakeholder managerial branch.

On the other hand, the three banks in **green** have a lower rank in ordinary disclosure but a higher rank in quality. This thesis argues that these kinds of banks that provide more useful 3 level evidence in the annual report demonstrate that they are serious in stakeholder relationships and are accountable to various stakeholders.

Furthermore, Islamic banks in **yellow** provide important information. Even though the scores are low, they provide crucial information for the findings. An Islamic bank might not be scoring well in an ordinary disclosure but that Islamic banks might provide more evidence in their annual report. For example, they might say one phrase about nature but provide three pieces of evidence in their annual report such as saving 1 tonne of paper in one year, planting one thousand trees as part of their CSR efforts, and saving 60 thousand on the electricity bill in a bank-wide go green initiative. This is why the 3 level method is chosen to differentiate between the banks that just tick boxes off the checklist and banks that provide further evidence.

All of these results show that there are banks that are good at ordinary disclosure but do not perform in quality disclosure. One important information from these findings is that a deeper evaluation should be taken into consideration when examining the annual report rather than just an outdated approach. Only a few Islamic banks are consistent in their ordinary and quality disclosure rank and that is an uncommon occurrence if compared to Bahraini Islamic banks, as discussed in the next sub-section.

6.4.4.4. Bahrain Top 10 Performing Bank Movement

Top 10 Performers in Bahrain										
Rank	ORDINARY Disclosure Score					QUALITY Disclosure Score				
	Bank	Avg. Score	Std. Dev.	Min	Max	Bank	Avg. Score	Std. Dev.	Min	Max
1	IHIB-BH	37.2%	3.6%	34%	42%	BIB-BH	50.7%	6.2%	41.7%	58.3%
2	BIB-BH	30%	4.1%	23%	33%	IHIB-BH	49.3%	7.3%	40%	56.7%
3	ABCIB-BH	28.8%	3.3%	23%	31%	ASBB-BH	43%	3.8%	36.7%	46.7%
4	BAB-BH	28.4%	3.4%	23%	32%	ABIB-BH	41%	9.5%	28.3%	53.3%
5	VCB-BH	27.8%	1.1%	26%	29%	ABCIB-BH	38.7%	2.5%	35%	41.7%
6	ASBB-BH	27.2%	2.9%	23%	31%	VCB-BH	38.3%	2%	36.7%	41.7%
7	ABIB-BH	26.6%	2.5%	25%	31%	GFH-BH	36.3%	1.8%	33.3%	38.3%
8	GFH-BH	25.2%	1.9%	22%	27%	IIB-BH	35.7%	3%	31.7%	40%
9	IIB-BH	24.8%	4.3%	18%	29%	FEB-BH	35.7%	2.5%	33.3%	40%
10	KFH-BH	24.4%	2.5%	22%	28%	BAB-BH	35%	7.4%	26.7%	45%

Table 6.17: Bahrain, Bank Level Difference (Ordinary Vs Quality)

Bank's Name : IHIB = Ihtimaar Islamic Bank , BIB-BH = Bahrain Islamic Bank , ABCIB = ABC Islamic Bank BAB-BH = Bank Al-Khair Bahrain , VCB-BH = Venture Capital Bank Bahrain , ASBB-BH = Al-Salam Bank , ABIB-BH = Al-Baraka Islamic Bank Bahrain , GFH-BH = Gulf Finance House , IIB-BH = International Investment Bank , KFHB = Kuwait Finance House Bahrain , FEB-BH = First Energy Bank.

Avg.Score = Average Score, **Std.Dev.** = Standard Deviation, **Min** = Minimum , **Max** = Maximum

SEGE Score : Shariah , Social , Environmental , Governance & Ethics Score

GREEN Colour = Bank that climbed up into a better rank in terms of Quality Disclosure compared to Ordinary Disclosure

RED Colour = Bank that fell down into a lower rank in terms of Quality Disclosure compared to Ordinary Disclosure

YELLOW Colour = 1- Bank that is Out of Rank in Quality Disclosure OR 2- Bank that is not in the top 10 rank of Ordinary Disclosure but is ranked In top 10 Quality Disclosure

With reference to table 6.17, the movement of the Islamic bank ranks from ordinary to quality disclosure will be discussed further. As compared to Malaysian Islamic banks where at least three banks remain the same rank either in ordinary or quality disclosure, Bahraini Islamic banks are not static; rather, all Islamic banks move places in ordinary and quality disclosure rank. They either climb down or up and the gap between the ranked movements is significant.

Four of the Islamic banks in Bahrain dropped their rank from ordinary when compared to the quality disclosure score rank while another four climbed up the rank. The main difference between Bahraini Islamic banks and Malaysia is the movement gap. Bahraini Islamic banks have larger movements. For instance, As Salam Islamic Bank Bahrain (ASBB) moved up from 6th place in ordinary score to 3rd place in quality disclosure score while Bank Al-Khair Bahrain (BAB-BH) climbed down from 4th place in ordinary disclosure to 10th place in quality disclosure. As compared to Malaysian Islamic banks, Bahraini Islamic banks' movements were more volatile compared to Malaysian Islamic banks' movements that were more stable.

The big gap shows that an Islamic bank might perform well on the checklists but may not necessarily provide valuable and practical evidence in their annual reports. Thus, the need to have a deeper analysis like what this thesis has done is important. In a *conservative* country such as Bahrain, these findings prove that disclosure quality can be really varied and low compared to a moderate and progressive country like Malaysia.

All in all, for Bahrain, there are two distinctive differences. The first one is that none of the Islamic banks have a static rank and, when it comes to the movement of the rank, many have a huge gap between their ranked movement from ordinary to quality disclosure. All of these signal a clear disclosure disparity between the two countries even though they are in the same, small Islamic banking industry. Certainly, there are distinct differences in these two countries. The findings differences for both countries may answer the research question on the differences between the two models of Islamic banking. The performance of the ordinary and quality disclosure of the two countries

may be influenced by the *regulatory quality* of the countries' *working and social culture* in the nation and how important the *social contract (religious value)* is perceived by both society and the Islamic banks. Where there are stronger ties and sensitivity between the parties, it is presumed that the disclosure will be better in terms of volume, quality and graphic utilisation. These findings have proven to be consistent in that direction.

Furthermore, the stakeholders in Malaysia and Bahrain are different in nature. The stakeholders in Malaysia are much more sensitive, particularly for society as a whole. This was proven by the fact that the initiative for the establishment of the first Islamic bank in Malaysia came from the Bumiputra Economic Congress where a majority of Muslim members suggested the need to establish Islamic banks in Malaysia to the government of Malaysia in 1980. This was followed by the steering committee findings in 1981 which suggested that the Islamic bank project was viable and profitable enough to operate after considering the religious, legal and operational aspect, as informed by Utusan (2001).

However, Bahrain's first Islamic banking establishment was mainly based on the Organisation of Islamic Cooperation's (OIC) proposal to all its members to embrace and put effort into the Islamic bank initiative. Nevertheless, Bahrain established its Islamic bank in 1979 without a single legal Act and with only a rulebook by the Bahrain central bank, compared to Malaysia with the Islamic Banking Act in 1983 and the Takaful Act 1984. This clearly differentiates the effort that these two countries have had in managing their regulatory affairs. Even though Bahrain is the most advanced financial centre for conventional and Islamic market in the Middle Eastern region, Malaysia has nevertheless been far more progressive and advanced compared to Bahrain in managing Islamic finance and banking issues from the beginning and in recent times. It is beneficial to reiterate that this study has compared the two most prominent countries in the Islamic banking sector.

In the next section, one of the interesting findings, that of graphics utilisation in the annual report by both countries, will be presented.

6.4.5. Graphics Utilisation by the Countries

GRAPHICS UTILISATION								
YEAR	MALAYSIA				BAHRAIN			
	Avg. Score	Std. Dev.	Min	Max	Avg. Score	Std. Dev.	Min	Max
2010	19.04%	29.80%	0	85.70%	16.98%	14.97%	0	42.90%
2011	16.67%	24.61%	0	71.40%	16.98%	15.85%	0	42.90%
2012	19.04%	27.26%	0	71.40%	17.88%	16.09%	0	42.90%
2013	23.88%	34.78%	0	87.00%	16.98%	15.85%	0	42.90%
2014	23.88%	34.44%	0	100%	16.09%	17.99%	0	42.90%
5.YRS.AVG	20.50%	30.18%	0	83.10%	16.98%	16.15%	0	42.90%
Table 6.18: Graphic Utilisation		18 Islamic Banks			16 Islamic Banks			

Table 6.18 above presents the graphics utilisation rate in both countries. Normally, research in social reporting literature calculates the graphics disclosure and includes it in the main score. However, this research separated the graphic disclosure statistics in order to appreciate it and to motivate further the exploration of graphics in the social reporting area.

The most interesting aspect of this table is the maximum percentage of graphics utilisation of both countries. Malaysia scores high in all years between 2010-2014 with a maximum of 100 percent in 2014 while Bahrain's maximum score is static throughout the years. This shows that there are Islamic banks that are really committed to providing graphics to complement the narrative part of disclosure in the annual report, and, on the other hand, there are Islamic banks that do not fully utilise the potential of graphics.

Even though the average score for both countries falls between 16.98 percent and 20.5 percent, the maximum score may suggest that there are Malaysian Islamic banks that take disclosure towards various sensitive stakeholders seriously while Bahraini Islamic banks are not really sensitive to various stakeholder demands. The justification of the sensitivity response from various stakeholders is explained in the SEGE framework in the theoretical foundation chapter.

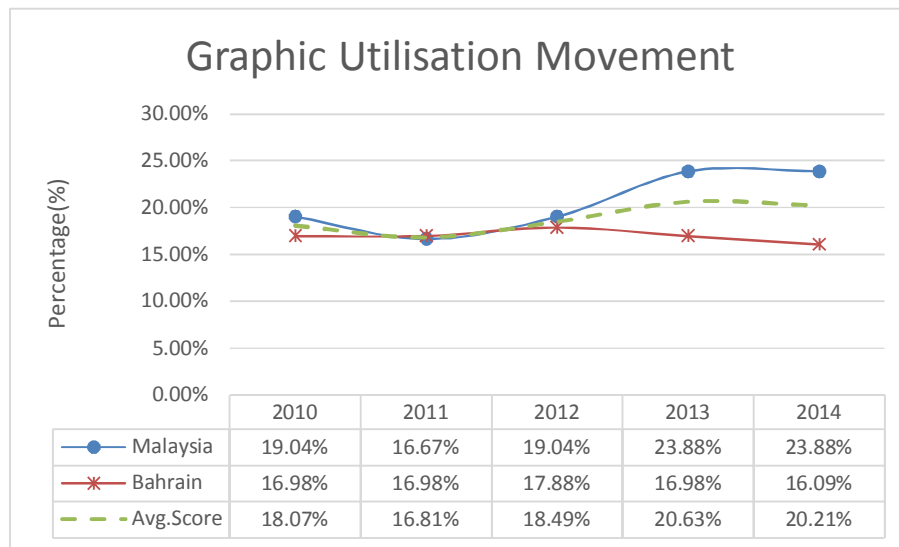


Figure 6.13: Graphic Utilisation Movement

Figure 6.13 clearly shows that Malaysian Islamic banks' graphics utilisation is always above average, except in 2011, while all Bahraini Islamic banks performed below the countries' average, except in 2011 with slightly (and insignificantly) higher scores. Despite this, the overall findings for graphics utilisation reveals that Malaysia is superior in utilising graphics in its annual reports to help in delivering the disclosure message according to the related dimensions and themes they are interested in.

Even though the overall average score is around 20 percent, this can be considered significant enough if the Islamic banking industry that operates mainly in third world countries (and which have limited exposure towards disclosure initiatives) are compared to conventional banks in first world countries. Looking at the pooled estimation later in chapter 7, section 7.3.6, religiosity has a significant positive impact towards graphics disclosure while, here, we know that in terms of religiosity, Malaysia is much more religious with an 84.8 percent score in the world value survey compared to the 40.6 percent of Bahrain. This may be one of the reasons why Malaysian Islamic banks' performance in graphics disclosure is better than Bahraini Islamic banks.

Furthermore, graphics utilisation is an important and striking finding in this thesis. In the social reporting and business ethics literature within the scope of Islamic banking, no research has

specifically addressed graphics utilisation in the annual report of Islamic banks. However, research like Rania and Clare (2010) have explored the issue of graphics in Arabian companies in the middle east, and many other studies, for instance Haniffa and Hudaib (2007), have included graphics in their overall disclosure. Most studies take graphics as a whole to be a part of disclosure score. However, there are studies that touch upon the importance of graphics utilisation in financial reports such as Uyar (2009), Yin (2005), Bernardi et al. (2002), Beattie and Jones (2002), Beattie and Jones (1997), Preston et al. (1996), Beattie and Jones (1994), Beattie and Jones (1992).

Moreover, it is argued that graphics play an important role in annual reports which can lead to a better understanding of the information (Levian, 1980). These ideas are supported by Beattie and Jones (2002) who argue that visual, graphic and pictorial aids assist readers to instantly appreciate the information provided in the annual report.

Even though some might argue that graphics might mislead the user of the annual report, the same can be said of jargon words, impression management and accounting treatment in the annual report. The most important aspect to avoid users of annual reports from being misled is to equip users with the knowledge and understanding of how to use annual reports according to their objectives. For instance, auditors, researchers, and investors all have different objectives in using the annual report. In this thesis, the use of graphics has been used as a key marker for 3 level disclosure score for quality disclosure in level 2 and level 3 which have been explained in the methodology chapter. Meanwhile, separate statistics for graphics utilisation for each country have been disclosed for each year to see which country utilises them the most. All in all, for graphics utilisation, Malaysia proves to be superior in utilising graphics compared to Bahrain, which may be the result of different levels of religiosity as a country and the commitment of several Malaysian Islamic banks who maintain the stakeholder relationship and the social contract within society at large.

Thus, some of the findings will be elaborated upon with examples from annual reports from each country to deepen the understanding on the important role that graphics play in the annual report

and how crucial the study and research area is to be explored. The example below may suggest the differences between ‘**authentic performers**’ and ‘**unauthentic performers**’ in disclosure performance.

One of the important features of good disclosure is providing evidence, for instance figures and pictures as in *appendix 8: Disabled benefits in Annual Report Bank Rakyat 2013* page 109. The Islamic bank has shown its commitment to disclosure when a picture was provided and a quotation from an employee was taken. Regardless of the issues of corporate greenwashing or window dressing as advocated by Laufer (2003), this can be regarded as the first step in the process and can be an indicator of whether the Islamic banks are making an effort in their disclosure with regards to specific dimensions and themes. Disclosure like this provides more information to concerned stakeholders on themes and dimensions that they are interested in besides maintaining legitimacy by taking care of the social contract between society and the Islamic banks. On another note, disclosure like this provides greater evidence compared to the phrases level and may signal the bank’s commitment towards stakeholders.

However, there are also Islamic banks that provide their social responsibility disclosure in a very minimal way, for instance in figure 6.14.

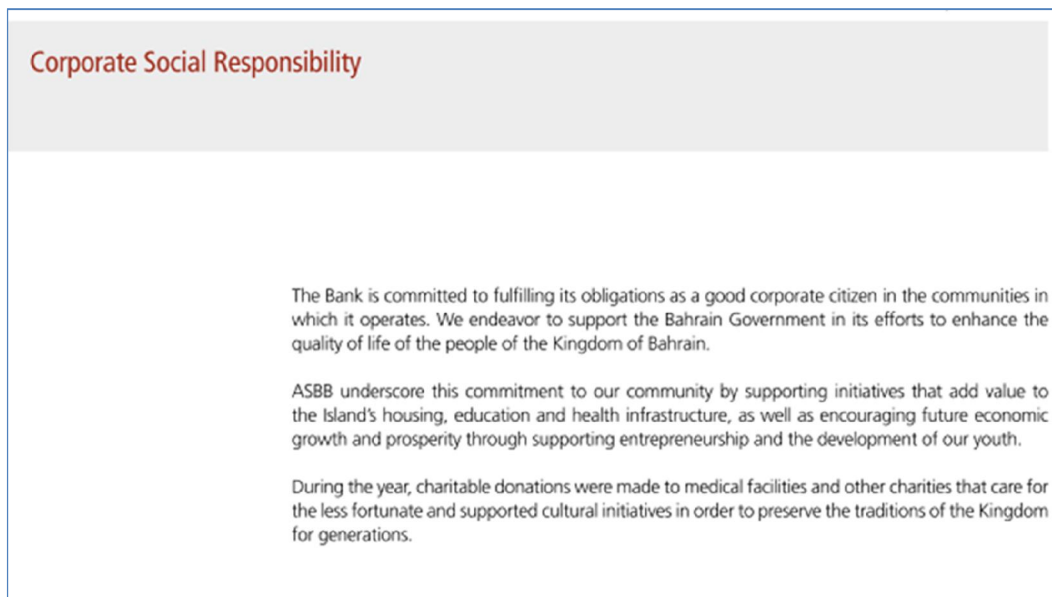


Figure 6.14: CSR Section for Al-Salam bank Bahrain from Annual Report 2012 pg.54, 2013 pg.60, 2014 pg.63

The above figure is one interesting example by Bahraini Islamic bank. Al-Salam bank Bahrain provided similar and identical corporate social responsibility statements in their 2012, 2013 and 2014 annual report. Certainly, this statement was only made to fulfill the standard requirements outlined by the Accounting and Auditing Organisation for Islamic Financial Institution (AAOIFI) under Governance standard section (7) Corporate Social Responsibility Report that was imposed in Bahrain.

The above example demonstrates the type of disclosure comprised of mere phrases with a standard approach towards disclosing certain themes or aspects of interest which the bank has deemed important. Moreover, this type of disclosure may signal that the banks are satisfying their legitimacy from the (AAOIFI) and/or are only satisfying the most influential and important stakeholders for the Islamic bank's survival. In addition, this may indicate that this disclosure only goes into the managerial stakeholder branch rather than the ethical branch of stakeholders. Moreover, if compared to banks that do not have specific social responsibility headers in their annual report, several Islamic banks perform better in terms of social responsibility related disclosure. The next section discusses the seven main dimensions of disclosure in a multifaceted matrix.

6.4.6. Disclosure Matrix for 7 Dimensions

7 DIMENSIONS MATRIX															
Year	MALAYSIA & BAHRAIN														
		SHARIAH		SHARIAH GOV.		SOCIAL EXTERNAL		SOCIAL INTERNAL		ENVIRONMENT		ETHICS		GOVERNANCE	
	Country	Ordinary	Quality	Ordinary	Quality	Ordinary	Quality	Ordinary	Quality	Ordinary	Quality	Ordinary	Quality	Ordinary	Quality
2010	MY	15.70%	44.40%	45.30%	65.70%	9.20%	21.60%	31.30%	76.90%	3.30%	6.20%	3.10%	7.40%	53.60%	53.70%
	BH	15.80%	35.40%	36.40%	40.60%	16.20%	38.20%	20.50%	63.50%	0%	0%	6.90%	13.50%	55.80%	61.10%
2011	MY	16.90%	44.80%	45.50%	69.40%	11.60%	25.90%	30.40%	77.80%	4.10%	8.00%	2.50%	6.50%	53.80%	50.00%
	BH	16.30%	32.90%	41.60%	40.60%	18.70%	41.70%	19.90%	57.30%	1.30%	2.10%	8.80%	19.80%	65.50%	64.60%
2012	MY	20.40%	45.90%	47.40%	69.40%	13.20%	27.20%	26.10%	74.10%	3.70%	6.80%	4.40%	15.70%	55.80%	51.90%
	BH	16.30%	34.20%	40.90%	38.50%	18.50%	36.10%	19.90%	56.30%	2.50%	2.80%	10.30%	20.80%	63.50%	63.90%
2013	MY	22.90%	53.30%	51.10%	77.80%	18.80%	38.90%	33.20%	76.90%	2.20%	4.30%	5.00%	16.70%	54.40%	51.20%
	BH	17.80%	35.80%	42.40%	40.60%	18.10%	36.10%	20.80%	56.30%	0%	0%	9.40%	19.80%	60.00%	63.20%
2014	MY	25.20%	53.00%	52.80%	71.30%	22.90%	41.40%	25.60%	72.20%	4.40%	9.90%	6.40%	22.20%	51.80%	50.00%
	BH	19.00%	37.90%	40.20%	41.70%	16.90%	37.50%	22.30%	65.60%	0.40%	0.70%	9.70%	22.90%	62.50%	66.00%
5yrs Avg.	MY	20.20%	48.30%	48.40%	70.70%	15.10%	31.00%	29.30%	75.60%	3.50%	7.00%	4.30%	13.70%	53.90%	51.40%
	BH	17.10%	35.30%	40.30%	40.40%	17.70%	37.90%	20.70%	59.80%	0.80%	1.10%	9.00%	19.40%	61.50%	63.80%

Table 6.19: Matrix for 7 Dimensions

The above table is quite revealing in several ways. First, unlike the other tables, table 6.19 summarises most of the research findings via dimensions. However, due to the need to extract the findings in an explainable manner, the table needs to be organised in a matrix with five reading variables which are country, seven dimensions, ordinary and quality disclosure score, and time frame. Second, the table assists in understanding the comparison between ordinary and quality disclosure by both countries. Thirdly, the table can use to reveal and appreciate the ordinary and quality disclosure comparison of a particular country. Lastly, the table can be useful in reading the performance of both countries' disclosure in a mix of dimensions and type of disclosure.

The purpose of table 6.19, apart from what is mentioned above, is to highlight the striking findings of both countries' dimensions that play an important role in this research. Looking and comparing at the Shariah Governance and Governance score in Malaysia and Bahrain, there are distinct features between these countries.

First, Malaysia is the clear leader in Shariah Governance disclosure score while Bahrain scores higher than Malaysia in Governance score. In Islamic banking literature, the words Middle East or Gulf Corporation Council (GCC) model and Malaysian model of Islamic banks are not new terms, and this is advocated by Mohd. Yusof and Bahlous (2013). Looking at the history of where Islam emerged, generally, the world is more likely to label Bahrain as more Islamic compared to Malaysia that received Islamic teachings much later compared to the Middle East. However, looking at the score of Shariah Governance, Malaysia is much more committed to providing information in ordinary disclosure and useful information in quality disclosure for the stakeholder with 70.8 percent as compared to Bahrain at 40.4 percent.

Furthermore, Malaysia's higher score in Shariah Governance does not mean that Islamic banks want to look religious as perceived by a general audience. Rather, the higher score of Shariah Governance indicates a pure commitment by Malaysian Islamic banks in the disclosure of Shariah matters. This is supported by the World Value Survey (importance of religion score) where Malaysia scored 84.8 percent while Bahrain scored 40.6 percent in wave 6 (2010-2014), the same period this study was conducted. Moreover, the World Value Survey score was parallel to the Shariah Governance score's findings by elucidating that countries that perceive religion as important have a higher score for Shariah Governance (Malaysia) compared to ones that have a lower score for importance of religion (Bahrain).

Second, looking at the social external and social internal dimensions, the results are opposite for each country where Bahrain scores slightly higher in the social external dimensions in both ordinary and

quality disclosure while Malaysia scores higher in the social internal dimensions as compared to Bahrain.

However, an important piece of information between these two dimensions is the gap range between the dimensions and countries. In terms of dimensions, the social internal dimension has received more attention by both Islamic banks in both countries, where the gap difference between quality disclosure is huge and more than 50 percent. For instance, Malaysia scored a 75 percent average for five years in social internal quality disclosure (the highest score of all dimensions for Malaysia), compared to the 31 percent in social external dimensions, while Bahrain scored 59 percent in social internal quality disclosure (the second highest score of all dimensions for Bahrain), as compared to the 37 percent in the social external score. These significant gaps show that Islamic banks in both countries give more attention to the social internal dimension which includes human resources and capital management disclosure and rewards and benefits related disclosure.

Furthermore, as an example, a unique disclosure by Bank Rakyat Malaysia Limited in the annual report 2013 (page 109) had disclosure about disabled employees' benefits (supported with graphics) and the extension of payment holiday schemes for house financing to the employees of Bank Islam Malaysia limited in the 2011 annual report (page 185). Moreover, Bahraini Islamic banks frequently displayed employee training hours. For instance, the Bahrain Islamic Bank annual report 2011 disclosed that 6000 hours of training had been undertaken on page 24. Similarly, in the Al-Salam bank Bahrain annual report 2010 (page 32), 9000 hours of training by employees was undertaken. The above are examples of qualitative information extracted from the annual report by Malaysian and Bahraini Islamic banks in order to support and explain Malaysia and Bahrain's high score findings in social internal disclosure.

Third, one of the distinctive features of Bahraini Islamic banks is governance score, which is around 61.5 percent for ordinary governance score and 63.8 percent for quality governance score averaged over 5 years. In the later part in chapter 6, regulatory quality (world governance indicator) is not significant towards disclosure in Bahrain; however, Bahrain scores high in governance disclosure. This

may signal that Bahrain Islamic banks generally want to look good in their governance by providing more disclosure, but, in reality, they only disclose more on the board of directors and top management rather than on governance policy and standards as presented in the table below: -

COUNTRY	GUIDING PRINCIPLE OF GOVERNANCE	BOARD OF DIRECTOR	TOP MANAGEMENT	OVERALL GOVERNANCE
Bahrain	40.8 %	78%	82.5%	63.75%
Malaysia	50.5%	70.9%	24.3%	51.36%

Table 6.20: Governance (Malaysia VS Bahrain)

The table above show the disclosure themes that Islamic banking in Bahrain concentrate on. There is a high level of top management and board of director's disclosure, which mostly consists of pictures of the top management and board of directors and their biographies. However, there is less disclosure on the guiding principles of governance. Furthermore, one of the interesting facts about Bahraini Islamic banks is that some of the banks do declare the use of an international governance standard, for instance in the annual report of Al-Salam bank 2014 page 4, as compared to Malaysia that only uses Malaysian standards for corporate governance.

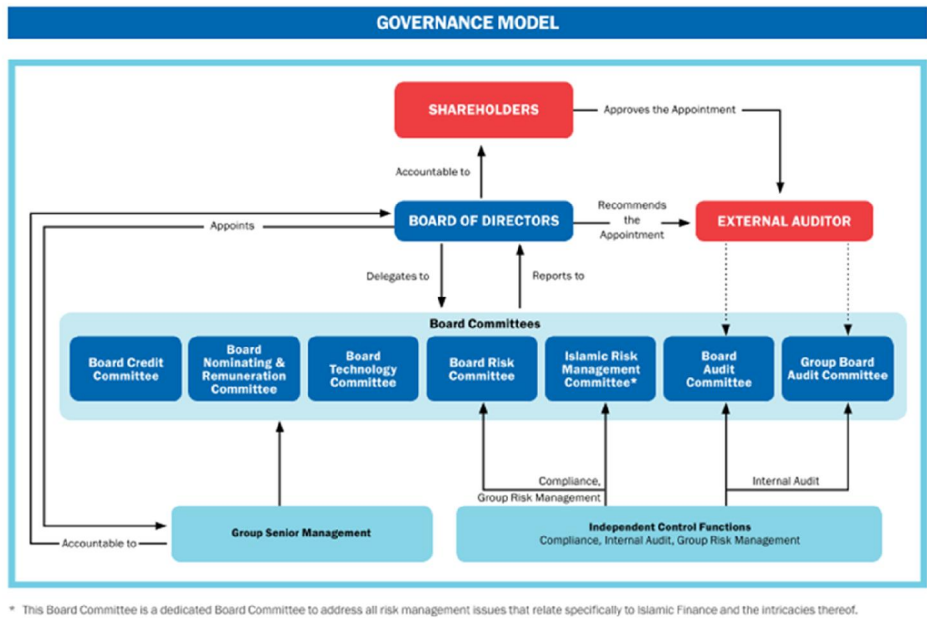
In addition, Malaysia does not concentrate on the top management disclosure theme. The minimal commitment to the top management disclosure is proven with a low score of 24.3 percent by Malaysia's Islamic banks as compared to 82 percent in Bahrain. Looking at the majority of Bahraini Islamic banks' annual reports, the top management biography proportion is too extensive for decent disclosure.

Malaysia scores 10 percent higher than Bahrain in the guiding principles of governance even though Malaysia uses its own set of governance standards. The standards are mainly influenced by the Malaysia Institute of Corporate Governance (MICG) and the Malaysia Code of Corporate Governance (MCCG) with the latest amendment in 26 April 2017 superseding the MCCG 2012 issued by the Securities Commission of Malaysia. Compared to Bahrain, the latest Corporate Governance Code and

Principle was released on 16 March 2010 and was issued solely by the Ministry of Industry and Commerce.

Looking at the structure of corporate governance initiatives and bodies, Malaysia has an advantage compared to Bahrain. Thus, the corporate governance structure may explain the different figures between these two countries in table 6.20. Therefore, the findings seem to suggest that Malaysian Islamic banks are likely to have a better disclosure quality score as compared to Bahraini Islamic banks. Even though the rough score in the overall governance score shows that Bahrain is better, when a deeper analysis explores the themes involved (top management, board of director), the interpretation may change.

Furthermore, for example, many Malaysian Islamic banks have their **governance model** disclosed in the annual report compared to Bahraini Islamic banks. For instance, Malaysia’s RHB Islamic bank annual report 2014 pg.16 is shown below: -



* This Board Committee is a dedicated Board Committee to address all risk management issues that relate specifically to Islamic Finance and the intricacies thereof.

Figure 6.15: Governance Model (RHB Islamic 2014 Annual Report, pg.16)

The figure above provides clearer evidence of the commitment of Malaysian Islamic banks towards disclosing governance information with regards to the “guiding principle of governance themes”,

which explains why Malaysia has a higher score in that theme compared to Bahrain even though the overall governance score is led by Bahrain. With detailed themes, the true potential of disclosure information interpretation may be correctly identified. In the next page, more detailed themes will be discussed.

6.4.7. Disclosure Quality Comparison on 20 Themes

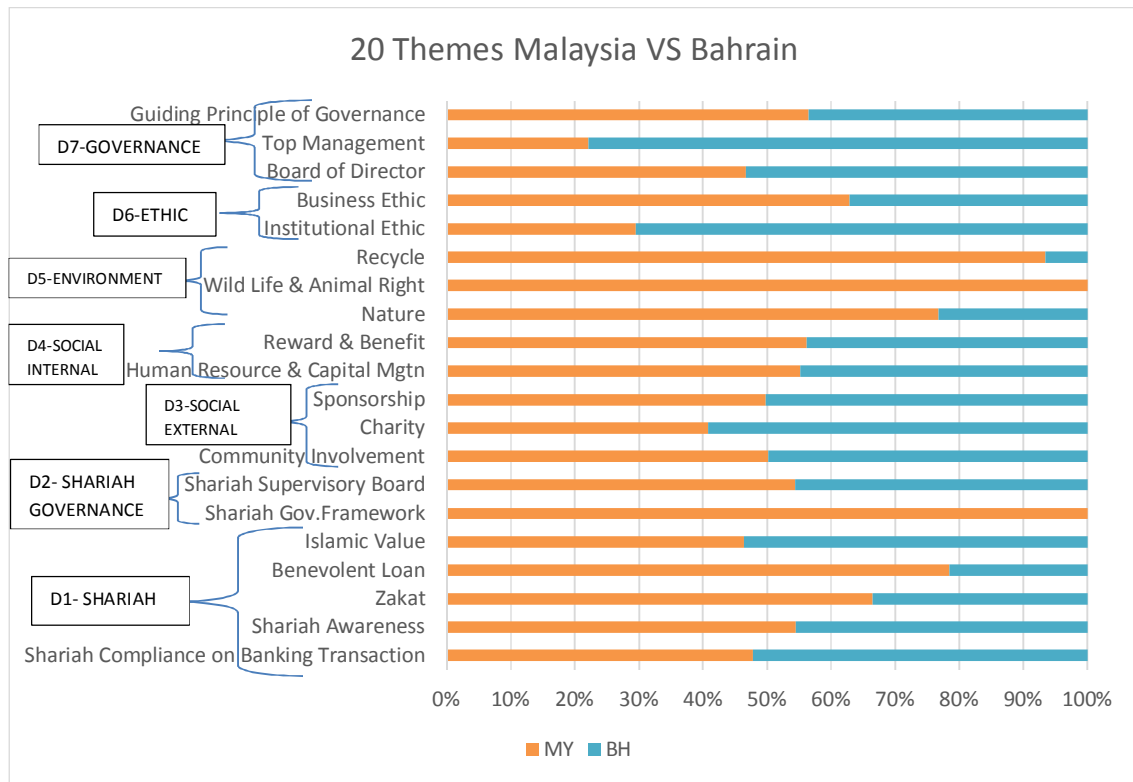


Figure 6.16: 20 Themes Commitment by the Two Model

Figure 6.16 above details the twenty themes under the seven main dimensions as discussed in “Chapter 3 Research Method & Methodology” on the structure of the themes. The themes help to further explain and investigate the performance of the disclosure in Malaysian and Bahraini models of Islamic banks.

Furthermore, deeper thematic exploration in the annual report content analysis investigation may help identify the “**true performers**” and “**fake performers**” or, on the other hand, identify the real disclosure that Islamic banks are concentrating on. For instance, through the seven dimensions, Bahraini Islamic banks have superseded Malaysian Islamic banks’ score in the ethics dimension. However, with deeper themes, a clearer interpretation under the ethics dimensions can be found. Bahrain concentrates on Institutional ethics while Malaysian Islamic banks disclose more on Business ethics. This information informs us that Bahrain, in other words, concentrates on ethics with regards

to an Islamic bank's ethical conduct inside the banks, for instance in the disclosure of a formal ethical code of conduct and employee training on ethical policy. On the other hand, Malaysian Islamic banks concentrate more on business ethics, which relates more to the relationship with other stakeholders, for example in the disclosure of promoting small businesses and the screening policy for environmental impact in channelling financing. Generally, based on the above example, if themes are properly designed, it will help capture important information and unveil differences for two or more comparisons, the same way that this study is conducted on the two countries that are synonymous with the two models of Islamic banks.

Moreover, another signal that proves Bahraini Islamic banks perform better in one dimension while actually having deeper themes is that it actually **concentrates on less important themes such as governance dimension**, which has been discussed under table 6.18, where **top management themes** (82.5%) contribute to the high score in governance dimensions for Bahrain overall. Figure 6.18 below is an example of top management disclosure that contributes to the high governance dimension disclosure in Bahrain instead of more disclosure on governance model as in Malaysia in figure 6.16 before.



Figure 6.17: Top Management Picture Disclosure, Al-Baraka Bahrain 2013, pg.16,

Another important information to understand is **Shariah dimension**. Even though in overall Shariah score Malaysia performs better in disclosure, it is crucial to recognise that Bahraini Islamic banks disclose more on the “Shariah compliance on banking transactions and Islamic values” themes. This may signal important information about these two countries as the result may suggest that Bahraini Islamic banks concentrate more on banking transactions and Islamic values in order to be legitimate in the eyes of society. For instance, “Shariah compliance on banking transaction” themes concentrate on the technical side of Islamic business transactions. Furthermore, the “Islamic values” themes provide information that subjectively inform the reader of annual reports on the Islamic goodwill that the Islamic banks carry. For instance, as can be seen in the Islamic art and motifs in the annual report in the figure below:-



Figure 6.18: Islamic Motives Bahrain Islamic bank 2011 Annual Report pg.5

Figure 6.18, may influence unknowledgeable readers to think that this bank is more Islamic than other Islamic banks **if the reader has no proper training and is not exposed to prior knowledge** before interacting with the annual report.

However, Malaysian Islamic banks concentrate on something that has a **real impact** to society, for instance in the disclosure of zakat and benevolent loans (loan without interest). This is because a majority of Islamic banks in the Malaysian model pay zakat (religious levy) out of their business profit (0.025% before taxes) to charitable organisations on top of government zakat distribution bodies. For example, Bank Muamalat Malaysia Limited’s (BMMB) annual report 2014 page 130 below discloses

their social responsibility focus grouped into community building, education support, environmental protection and poverty alleviation for zakat fund spending:-

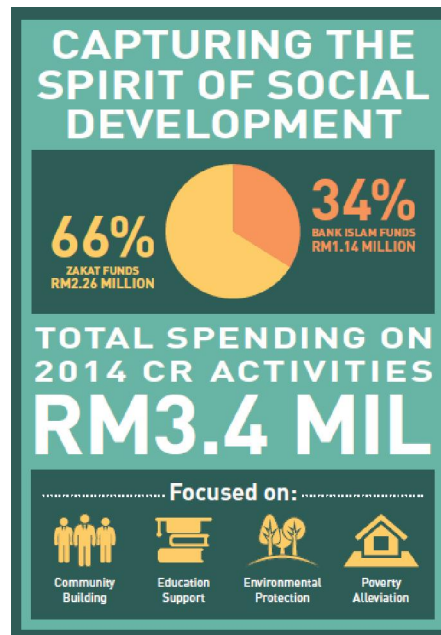


Figure 6.19: Zakat Fund Spending Focus Group, BMMB 2014 Annual Report pg.130

The above disclosure provides useful information to the readers and other stakeholders who are concerned with the banks' zakat activity instead of just providing the monetary value of zakat in the annual report.

However, a majority of Islamic banks in Bahrain do not pay zakat based on their interpretation of Islamic law on business zakat. For Bahrain, zakat payment is the individual responsibility of the customers and the shareholders. For example, see the statement of the First Energy bank annual report 2014 pg.37 that displays their view on the zakat payment responsibility standpoint.

Overall, this section highlights the usefulness of having a detailed specification theme under a vast dimension to identify the real differences and impact of disclosure by the two countries. Thus, this can facilitate an understanding of the real path of the disclosure, whether it is more for stakeholders or just for legitimacy purposes.

6.4.8. Unique and Universal Disclosure

Unique & Universal Quality Disclosure (Malaysia VS Bahrain)							
Year Observation	Ctry	Variable	Obs	Mean	Std. Dev.	Min	Max
2010	MY	Unique	18	50.50%	14.70%	23.80%	71.40%
		Universal	18	31.80%	16.80%	10.30%	69.20%
	BH	Unique	16	36.90%	10.40%	19%	57.10%
		Universal	16	34.80%	10.70%	20.50%	56.40%
2011	MY	Unique	18	51.80%	19.70%	14.30%	90.50%
		Universal	18	32.30%	18.40%	10.30%	76.90%
	BH	Unique	16	35.10%	9.50%	19%	57.10%
		Universal	16	36.90%	11.50%	20.50%	66.70%
2012	MY	Unique	18	52.60%	20.40%	23.80%	100%
		Universal	18	33.60%	21.10%	10.30%	89.70%
	BH	Unique	16	35.40%	10.10%	19%	52.40%
		Universal	16	35.60%	11.90%	17.90%	66.70%
2013	MY	Unique	18	60.30%	17.30%	33.30%	95.20%
		Universal	18	36.20%	16.70%	10.30%	69.20%
	BH	Unique	16	37.20%	9.60%	19%	57.10%
		Universal	16	34.60%	9%	20.50%	48.70%
2014	MY	Unique	18	58.20%	15.50%	28.60%	80.90%
		Universal	18	37.90%	19.20%	12.80%	74.40%
	BH	Unique	16	39%	11.70%	14.30%	61.90%
		Universal	16	37.70%	9.50%	25.60%	56.40%
Avg.5 Years	MY	Unique	18	54.71%	17.68%	14.29%	100%
		Universal	18	34.36%	18.26%	10.26%	89.74%
	BH	Unique	16	36.73%	10.11%	14.29%	61.90%
		Universal	16	35.90%	10.40%	17.95%	66.67%

Table 6.21: Unique & Universal Comparison (Malaysia-Bahrain)

One of the distinct features of the Islamic bank disclosure categorisation is ‘unique’ disclosure, which refers to shariah and shariah governance dimension-related themes. This feature was first introduced by Belal et al. (2014) in their study of one particular bank for 28 years with the term ‘particular’ for Islamic themes disclosure. However, this thesis changes the term to ‘unique’ item of disclosure and adds the shariah governance framework as one of the dimensions to be scored, with an updated Islamic Finance Services Board standard for shariah governance framework [IFSB-10(2009)] compared to IFSB (2006) in Belal et al. (2014). Referring to table 6.21, it is obvious that Malaysia’s ‘unique’ disclosure is better than Bahraini Islamic banks with a score not less than 50 percent in each year from

2010 to 2014. As compared to Bahrain, the unique disclosure is far less with an average of 36.73 percent in five years. The above shows that Malaysia provides more information on shariah matters compared to Bahraini Islamic banks. This might be explained by the 'top-down' approach of the Malaysian administration in the government body, such as by the central bank and parliament itself. The classification of Malaysia as using a top-down approach in Islamic banks movements is supported by Belal et al. (2014).

In the context of Malaysia, the effort and willingness of the top leaders in the central bank and parliament show how the Malaysian people as a society and the top organisations maintain such an excellent social contract. Moreover, the important roles played by the central bank and the parliament show the importance of stakeholders. This was proven by the latest Islamic Financial Services Act passed by parliament in 2013 that supersedes the Islamic banking act 1983 and Takaful act 1984. Furthermore, the Malaysian central bank's biggest department is the Islamic banking department with the Shariah Advisory Council at the central bank level established in 1997, the earliest in the world. However, this may be compared to the Bahrain central bank where only Rule Book 2 exists in relation to Islamic banking and finance related matters and the creation of a national level shariah advisory body is still pending.

Moving on to universal disclosure, Bahrain performs better compared to Malaysia, even though the score is not more than 50 percent, and this can give some hint as to the commitment of both countries towards universal disclosure. This seems to suggest that Bahraini Islamic banks' disclosure is balanced between universal and Shariah-related themes but is lower in nature while Malaysia discloses more on unique disclosure themes compared to universal themes and the 'unique' disclosure is higher than universal disclosure. The differences between unique and universal disclosure answers the research question on the comparison of the two countries' disclosure.

In summary, Malaysia's disclosure for 'unique' label disclosure is better than Bahraini Islamic banks and the reason is explained above.

6.4.9. Similarity & Diversification Thread of Disclosure between Islamic Banks (Malaysia Vs Bahrain)

6.4.9.1. Malaysia Clustered Thread Disclosure Diversification

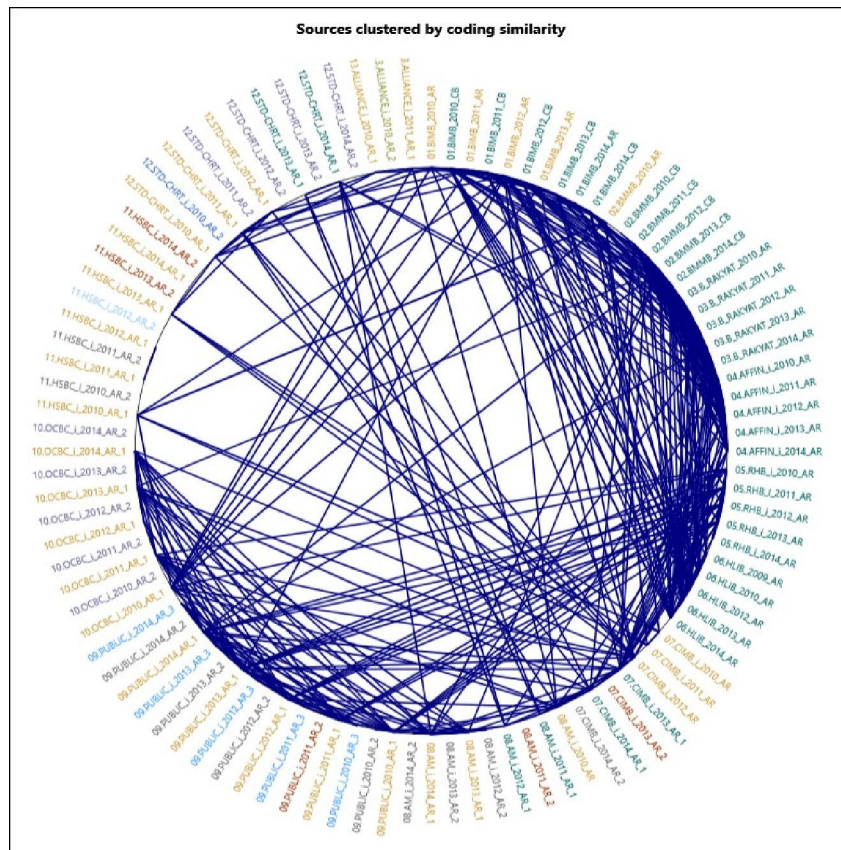


Figure 6.21: Malaysia Disclosure Thread between the Islamic banks



Figure 6.20: Malaysia Diversification from the Thread in the Annual Report

Referring to figure 6.21, the threads show the disclosure similarity among Islamic banks in Malaysia. Later, the figure can be compared with the Bahraini Islamic banks' thread. Islamic bank disclosure for all Islamic banks in Malaysia is not heavily similar. However, the thread shows that there are similarities between the performing banks. These are the top 3 performing Islamic banks in disclosure in ordinary and quality disclosure, namely Bank Islam Malaysia, Bank Rakyat Malaysia and Bank Muamalat Malaysia. This might suggest that these banks share the same vision and approach towards disclosure.

Moreover, the diversification of the disclosure signal in which Islamic banks in Malaysia approach disclosure is not stagnant; it provides the freedom of presentation of disclosure. This openness on one side is noble. However, proper motivation and moral persuasion techniques by the central bank on social, shariah, environmental, ethics and governance disclosure might increase the potential of the disclosure. The above-mentioned techniques can be applied in the Malaysian case because the society's values (religion-regulatory quality) are moderate. The majority of people from the society (executive, manager, senior management and board of directors) of the Islamic banks, coming from a background with similar values, seem to have a standard or principle that makes the disclosure as it is seen in the Malaysian Islamic bank context.

The diversity and the rich disclosure of Malaysian Islamic banks can be seen in figure 6.20, where there are many captured disclosures, which portray the richness and variety of disclosure. The differences will be clearer when compared to the Bahraini context in the next section. On the other hand, these differences provide further insight in answering the research question derived from the research objectives.

In the next section, the Bahraini Islamic banks' thread and diversification will be illustrated and presented.

6.4.9.2. Bahrain Clustered Thread Disclosure Diversification

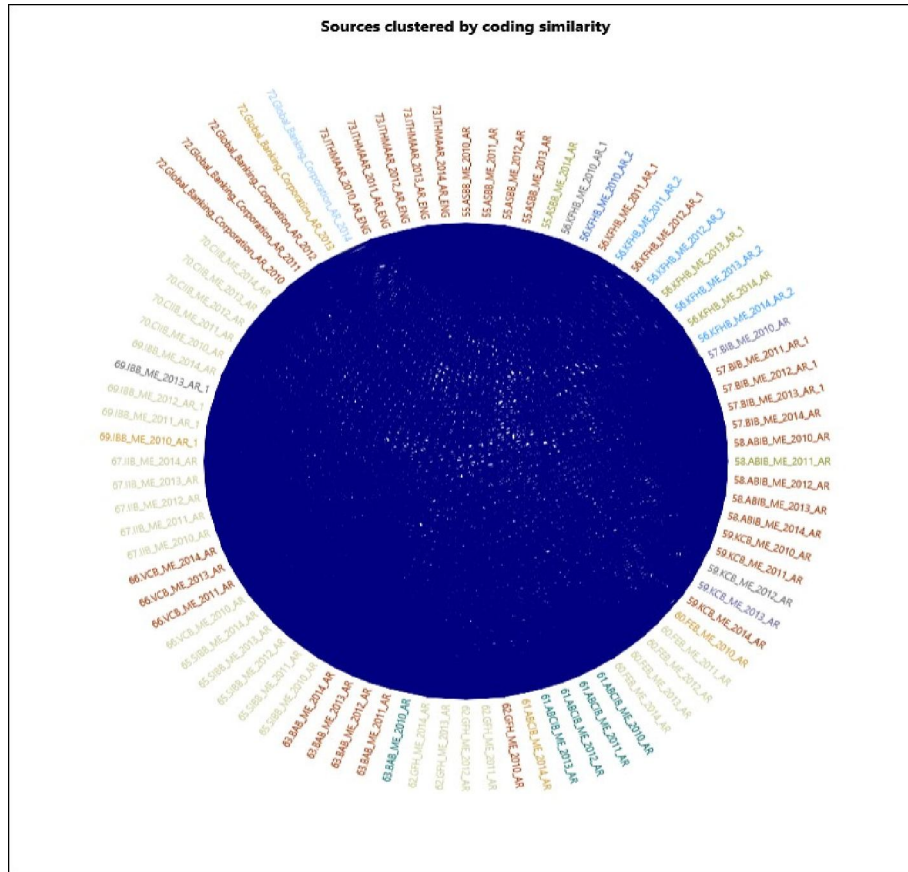


Figure 6.23: Bahrain Disclosure Thread between Islamic Banks

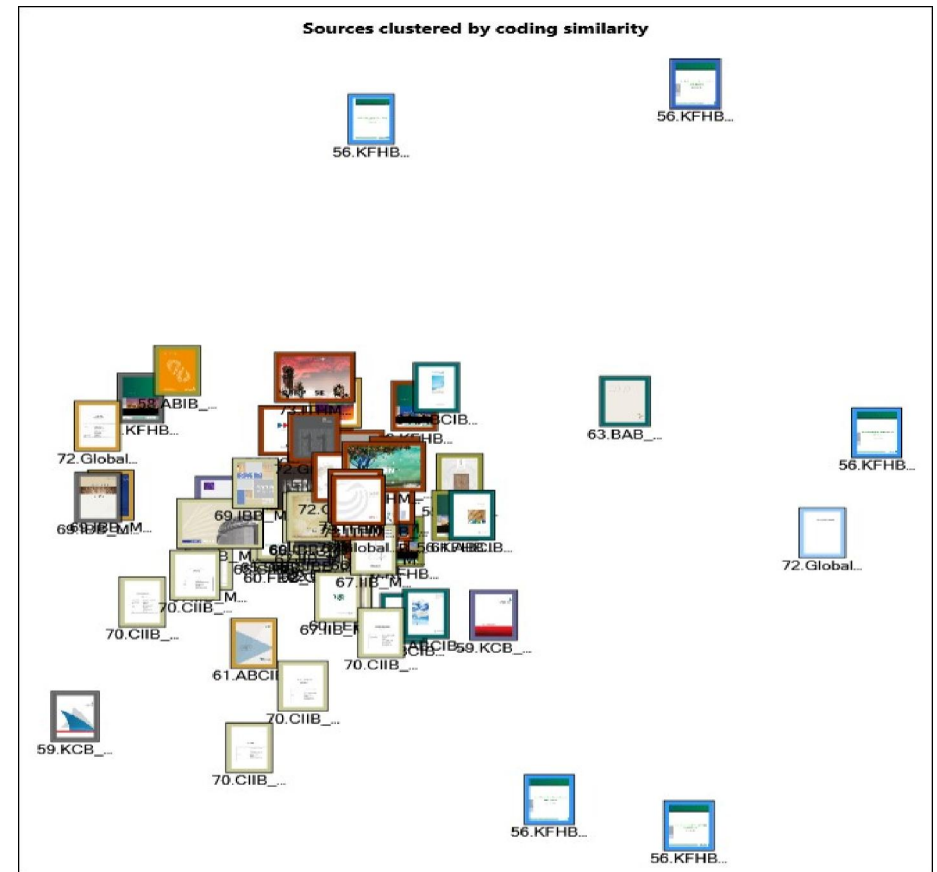


Figure 6.22: Bahrain Diversification from the Thread in the Annual Report

It is apparent from figure 6.23 that the threads of disclosure among Islamic banks in Bahrain are almost 99% similar to each other, covering and referencing each other. This is a striking finding compared to the Malaysian Islamic banks thread previously. One of the rational explanations for this is that Bahrain Islamic banks seem to have followed the same template or guideline provided by the AAOIFI and a further explanation might be that the culture of disclosure is not matured. In terms of society's culture (importance of religion), Bahrain is well behind Malaysia at around 40% while Malaysia is around 80%. Islamic banks are well-grounded in the religion and geographical area in which they operate, and these play an important role in their disclosure behaviour. As argued by Sidney (1988), culture and environmental differences between countries and areas might influence the financial reporting regime; however, this thesis argues that it does not only influence financial reporting but also social reporting as well.

Therefore, when looking at figure 6.22, there is less captured disclosure, which portrays poor and less diversity in Bahraini Islamic banks' SEGE disclosure. The captured-image of disclosure in the annual reports tend to be distributed in the same area, *southwest (refer to the compass guide)* of figure 6.24. However, Malaysian Islamic banks' disclosure distribution is quite evenly distributed. These two differences show that Malaysian Islamic banks are much more diverse in disclosure while Bahraini Islamic banks are much more concentrated in certain areas.

Furthermore, to reiterate the findings in the four figures (6.20, 6.21, 6.22, and 6.23) in section '6.4.9. Similar & Diversification Thread of Disclosure between Islamic Banks (Malaysia Vs Bahrain)', the thread symbolises the similarity of disclosure among Islamic banks in the country while the diversification in the thread shows the variation of the disclosure among Islamic banks in the country. Overall, in terms of variation, Malaysia has more variation in terms of disclosure as compared to Bahrain Islamic banks, and a further reasoning that might explain the variation will be explained in the discussion and conclusion chapter.

6.5. Illustration of Interesting Quotes

In this section, the thesis tries to provide some insight into interesting and peculiar quotes from the annual report analysis. This is beneficial as it may help to understand further the commitment of the Islamic banks and further explore the uniqueness of Islamic bank disclosure. Moreover, this section provides links and examples to the previous discussion by having quotes related to disclosure from Islamic banks' annual reports, where the disclosure quotes are classified under specific themes.

6.5.1. Social Internal Dimension Quotes

"In term of benefits, our Payment Holiday Scheme, first introduced to the Bank's customers in February 2008, has now been offered to our employees as an enhancement to the Bank's existing Staff House Financing Scheme. With the Payment Holiday benefit, eligible employees may opt to skip paying the monthly deduction for the months of November and December annually throughout their financing tenure. This is one of our initiatives in providing our employees with extra cash to help ease their burden for anticipated year-end expenses".

Figure 6.24 : BIMB 2011 Annual Report pg.185

Referring to figure 6.24, the above quotes show that Islamic banks appreciate not just the customer but extend the facilities to their own employees to benefit from the payment holiday programme. Furthermore, for the Islamic banking industry, this is the first one of its kind and not all Islamic banks offer this payment holiday scheme. This scheme helps customers save for the start of the academic year, and it is aimed at helping the family with school expenses.

6.5.2. Shariah Dimension Quotes

"With the intention to become a 'Global Leader in Islamic Banking' that offers globally accepted Islamic financial solutions, Bank Islam has strategically phased out contentious structure such as bai' 'inah from its product offerings. The Bank has instead offered solutions based on tawarruq (monetisation), murabahah for the purchase orderer and is currently in the process of developing products based on other contracts such as parallel istisna', ijarah muntahiah bit-tamleek, musharakah mutanaqisah and ijarah al-khadamaat".

Figure 6.25: BIMB 2013 Annual Report pg. 150

The Islamic banks have shown their commitment to shift to other, more reliable contracts as part of their financial solution. This commitment of disclosure belongs to the Shariah commitment theme, in particular inside the Shariah dimension. Malaysian Islamic banks demonstrate the moderate approach

by tolerating the financing contract that is preferred by their Middle Eastern partners. This will never happen on the Bahraini side.

6.5.3. Social External Dimension Quotes

"In order to expose students from the institutions of higher learning to a work environment, we also provided the opportunity to undergo practical training at the branches and the head office to 217 of them from all over the country".

Figure 6.26: B-Rakyat 2010 Annual Report pg.95

In terms of social external, the opportunity provided by the banks to university students in giving work-related experience is more or less the same as the Bahraini Islamic bank. Nonetheless, the only difference is that Bahraini Islamic banks usually disclose information without statistical evidence. Furthermore, on top of statistics, Malaysian Islamic banks usually pair their disclosure with graphics.

6.5.4. Environmental Dimension Quotes

"We contribute to the Hong Leong Foundation's recycling initiative by collecting and recycling scrap paper. We have also adopted a Bring Your Own Device ("BYOD") programme to reduce the amount of paper used to print documents, while installing water-saving devices in restroom faucets and practising a strict 'lights off' policy when office areas are not in use."

Figure 6.27: HLIB 2014 Annual Report pg.16

Islamic banks do disclose environmental initiatives, but this is still less compared to other dimensions. However, this is considered a unique and infrequent disclosure in the context of the Islamic banking industry. Furthermore, in comparison to the 16 Bahraini Islamic banks in the sample, not one has disclosure at the policy level for environmental causes. On another note, overall, Islamic banks in general still need to enrich themselves in terms of volume and quality of disclosure as the environment is one of the **triple 'E'** disclosure themes that are in the bottom three ranking.

In the next two sub-sections, the governance (Shariah & general) sample will be illustrated.

6.5.5. Shariah Governance Dimension

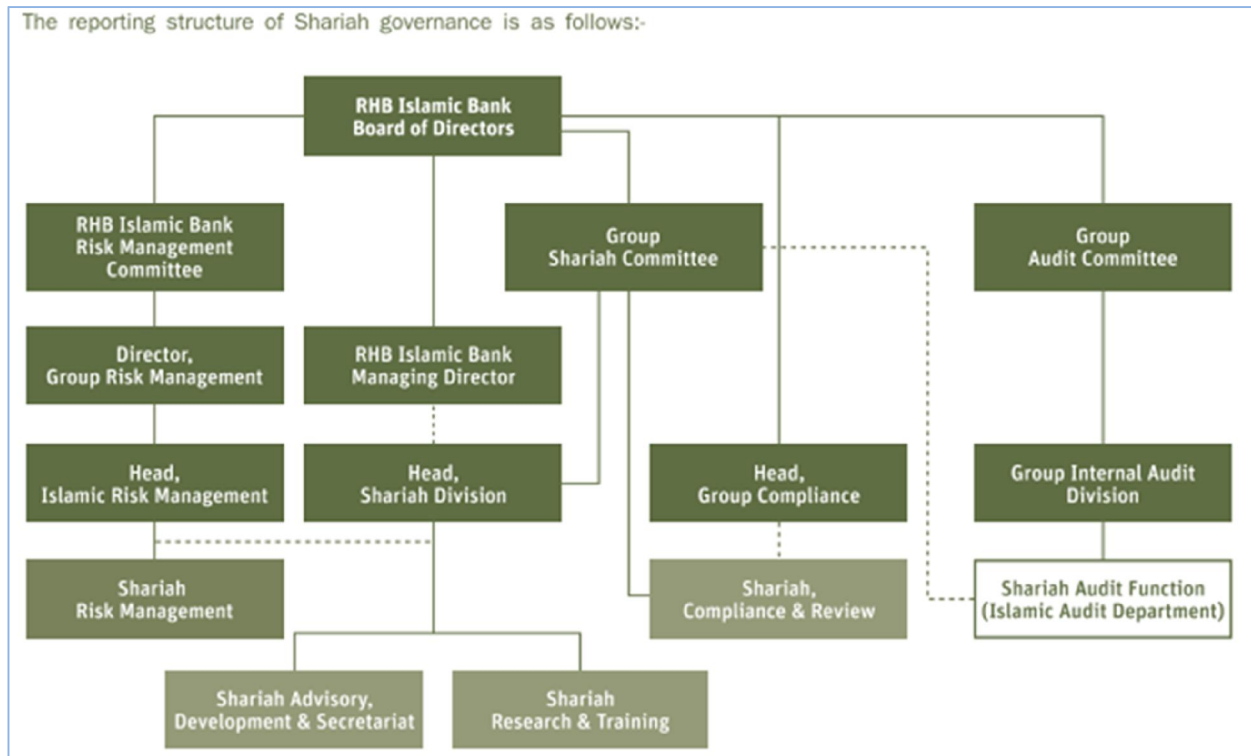


Table 6.22: RHB Islamic 2012 Annual Report, pg.223

This is an example of the disclosure of Islamic banks' shariah governance structure as not many Islamic banks illustrate it in graphical form. Many of the Islamic banks provide a shariah supervisory board report which is merely a declaration of the shariah compliance of the bank's operation to gain legitimacy from society. However, small numbers of Islamic banks provide the reporting structure of the shariah governance unit in a graphic. Generally, the majority of the public only recognises the shariah supervisory board and has little knowledge about the shariah compliance and review unit, shariah advisory section and shariah risk management. These units handle and execute the processes in the shariah governance parameter.

Moreover, the majority of disclosure is usually in the shape of a narrative. In the next sub-section, the general governance sample will be presented.

6.5.6. Governance Dimension Quotes

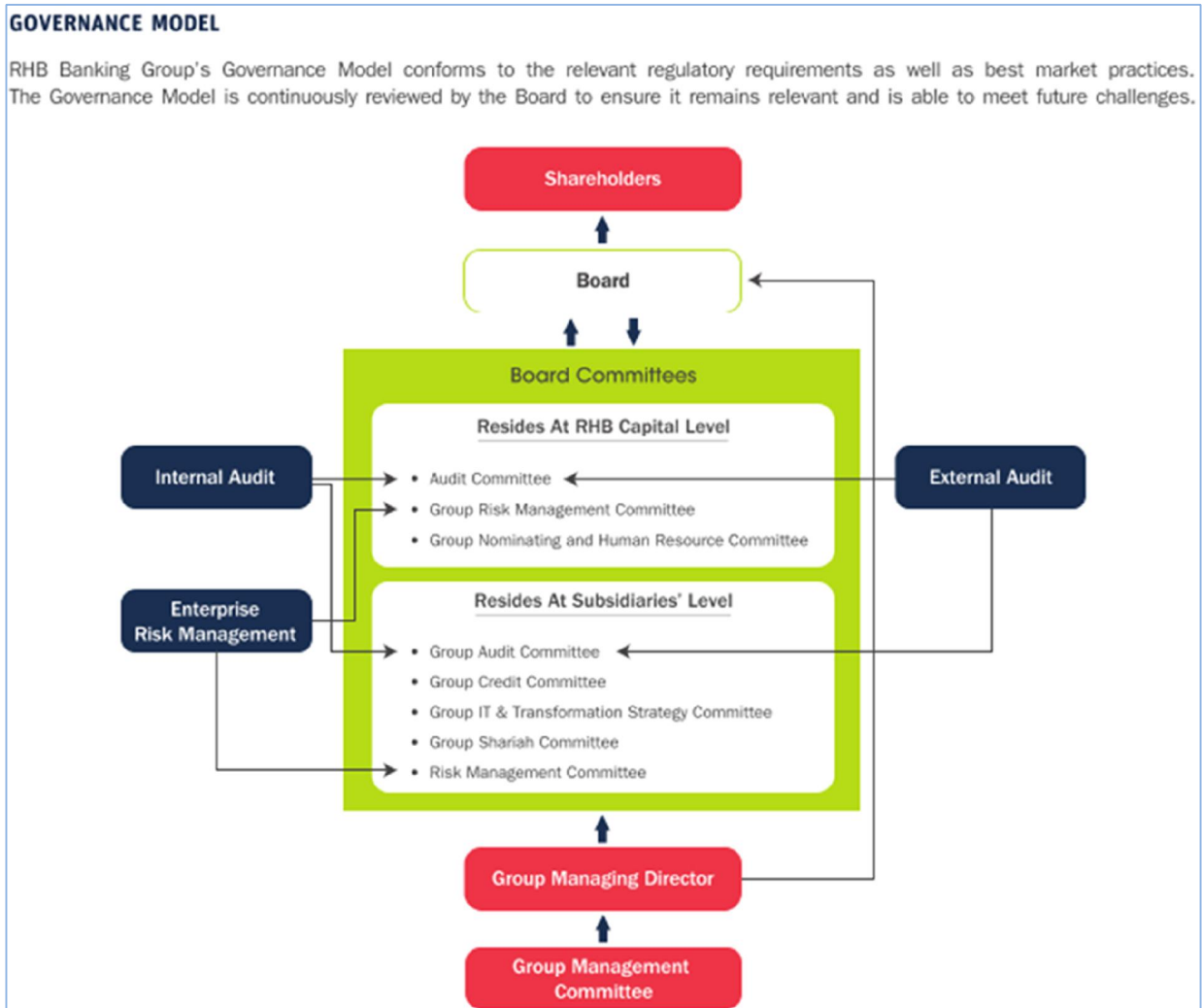


Table 6.23:RHB Islamic 2012 Annual Report, pg.19

Referring to table 6.23, the majority of Islamic banks have a clear governance model with at least each of the board of directors' leading in several important committees. However, there are some Islamic banks that have a separate corporate governance committee instead of the traditional committees that are combined as a whole to be a governance model. Furthermore, there are not many Islamic banks that disclose their governance models in the annual report using a graphical medium.

Moving further, the next sub-section is the most unusual disclosure of all Islamic banks under observation.

6.5.7. Unusual Disclosure Quotes

“Unidentified fund / Shubhah During the bank’s daily operation, there are certain funds received by the bank where the source is not clear / uncertain. These sources of fund are not recognised as income and it’s retained in the Maslahah Ammah account. The utilisation of the fund follows the similar procedure set for the SNI/funds. Example of unidentified funds are cash excess at teller and ATM machines and unidentified credit balances. Unidentified fund during the year was recorded at RM340, 547”.

Table 6.24: BMMB 2013 Annual report, pg.359

The information on the figure above is one of a kind as no other Islamic bank in Malaysia or Bahrain discloses this detail. This type of disclosure is rare and distinct. Moreover, the bank normally only discloses Shariah non-compliance income in general. Certain Islamic banks disclose further by stating the source of the non-compliant income, which is normally from late penalty charges.

Excess cash at the teller is common to professional bankers. However, the information is rarely disclosed to the public due to unknown and ambiguous excess sources of money. Moreover, this information has been disclosed in the Islamic bank’s annual report which is peculiar but informative. An example of this type of disclosure may signal that the above Islamic bank is trying its best to be as transparent as possible.

In the next section, a summary of chapter six will be concluded generally while being as informative as possible to include all the discussions in the chapter.

6.6. Conclusion

Chapter 6 Ordinary & Quality (SEGE) Disclosure is one important chapter of findings where the findings employ the 'double content analysis technique'. Moreover, this technique provides a rich amount of information and interpretation which has been presented and discussed previously in this chapter.

This chapter provides insight into the Social, Shariah, Environment, Governance & Ethics (SEGE) disclosure within the lenses of 'ordinary and quality' disclosure in three important phases.

The first phase represented the general findings in both countries to see the disclosure commitment of the Islamic banking industry as a whole. This is because studying these two countries allowed the results to have the closest interpretation for Islamic banking-related issues in general. As mentioned before, statistically, Malaysia has the greatest number of Islamic banks in the world and Bahrain has the second most. At the same time, Malaysia and Bahrain are the most advanced countries in Islamic banking development. Moreover, within these countries, many organisations support the establishment, movement, development and independence of the Islamic finance industry, which has been discussed in the background. Furthermore, these countries are known as the leaders in Islamic banking, with Malaysia known as having the Malaysian model of Islamic banking that leads in South East Asia and Bahrain representing the Middle Eastern model.

The second phase explains the findings by dividing the results into two countries as a comparison, even though these two countries are categorised as the leaders for the Islamic bank movement. However, to get a deeper understanding of these two countries, a deeper analysis needs to be explained. By having a comparison for these two countries, it is obvious that there are differences as explained and discussed in the chapter previously, where Malaysian Islamic banks prove to be better (in SEGE) overall and in a majority of other important dimensions and themes such as Shariah, Shariah governance, social internal and environment. On the other hand, Bahrain discloses more on the Governance dimension and supersedes Malaysia in Social external disclosure by only 2.6 percent in

ordinary disclosure and 6.9 percent in quality disclosure. The differences of the disclosure portray other factors that may explain the disparity, such as the administrative culture of a country, the regulatory quality of a country, how society perceives religion, the history of the country, how structured the societal organisation is in their religious and worldly affairs, and the people of the country itself. Many of these are subjective but some can be tested with relevant tools and indicators presented in chapter 7 while the subjectivity may be explained by the information discussed in chapter 8.

The third phase presents an even deeper result that answers research question 4 on individual bank performance. In the third phase, the differences between the two models and countries become clearer with the display of the movement of the banks in ordinary and quality disclosure which has been presented and discussed before in sub-section 6.4.3. The differences of the top ten banks confirm the previous country level findings in sub-section 6.4.1 and 6.4.2. This comparison of each bank by two countries and by disclosure quality is a new technique in Islamic social reporting literature, if not in ethical literature in general. Country differences can be double-checked by taking a closer look into each individual Islamic bank and comparing them together to get any results that may explain the differences at the country level.

In conclusion, chapter 6 provides information on the Islamic banks' general disclosure as a whole system and then takes a closer look into the countries' differences with regard to ordinary and quality disclosure. Furthermore, this provides insight into each individual Islamic bank to deliver a deeper understanding on both the Islamic banking model and the countries' disclosure differences. In addition, chapter 6 provides the answers to research questions 1, 2 and 4.

To further prove the findings and investigate the disclosure of these countries. A supplementary estimation and test is conducted and explained in the next chapter. On another note, to understand both chapter 6 and 7's findings completely, 'chapter 8 Thesis Discussion and Conclusion' needs to be read in conjunction with the previous chapters.

Chapter 7

**(Regulatory & Religion Impact on Quality of
[SEGE] Disclosure)**

CHAPTER 7 REGULATORY AND RELIGION IMPACT ON QUALITY OF (SEGE) DISCLOSURE

7.1. Introduction

This chapter consists of four main sections, namely '7.2. Modelling Process and Regressions Estimation', '7.3. Pooled Model Estimation (Malaysia-Bahrain)', '7.4. Comparison of Malaysia and Bahrain' and '7.5. Conclusion'

The objective of chapter 7 is to provide further support for the findings in chapter 6. In chapter 6, the main findings in the narrative and statistics show that Malaysia, which is more religious and is better in regulatory quality compared to Bahrain, performs better in SEGE disclosure in both ordinary and quality SEGE disclosure. Moreover, the movement of the individual Islamic banks in Malaysia in ordinary ranking and quality ranking provides further evidence that Malaysia is much better in SEGE disclosure.

The differences between these two Islamic banking models, despite being the two leading countries in the Islamic banking industry, are obvious. These differences between the countries are portrayed in chapter 6 and may be influenced by many factors. However, this thesis is interested in exploring the factors that relate closely to Islamic banks, which are religiosity (as a proxy of society's ethos) and regulatory quality (as a representation of society's effectiveness in administration). All of these are considered the values of a country, and this is explained in chapter 8 as this thesis believes that the country's values are potentially one of the many factors that determines the nature of Islamic bank disclosure in a country.

Furthermore, chapter 7 will provide statistical estimation evidence using a panel random effects regression analysis with a robust standard error to test the significance of religiosity and regulatory quality towards SEGE disclosure quality in the sample as a whole (Malaysia & Bahrain) and as a country on its own. The results in chapter 6 serve as complementary evidence and strengthen the main findings in chapter 6.

7.2. Modelling Process and Regression Estimation

7.2.1. Descriptive Statistics

The SEGE disclosure quality score provides a measure of the extent of total disclosure which are related to the Social External, Social Internal, Shariah, Shariah Governance, Environment, Ethics and Governance dimension disclosure category. These indices are computed for the period of 5 years from 2010 to 2014. These scores will later be distributed into 7 dimensions and 20 themes accordingly and then they will be explained.

Total SEGE Quality/Year	Obs	Mean	Std. Dev.	Min	Max
2010	170	37.01%	11.88%	18.33%	68.33%
2011	170	37.79%	14.02%	15.00%	81.67%
2012	170	38.04%	15.65%	15.00%	93.33%
2013	170	40.34%	13.12%	20.00%	78.33%
2014	170	41.76%	13.62%	18.33%	73.33%
5yrs	170	38.99%	13.67%	15.00%	93.33%

SEGE : Shariah , Social , Environmental , Governance & Ethics Score

Table 7.1: Yearly Overall Quality SEGE Disclosure Descriptive Statistics

The descriptive statistics in Table 7.1 above holds important information that will inform of the result of the later estimation regression. It is important to notice that the score, on average, increases even though not by a huge amount. This means the trend is positive. In the later part when the score is divided into countries, Malaysia maintains its increment and positive trend while Bahrain fluctuates and is inconsistent.

This is important to note at the early stage as, in studying Islamic banks in two or more countries, the differences need to be addressed and explained. This is because the result of the estimation might be significant in pooled data; however, the contribution may be made by a certain dominant country. This will be explained further in the estimation result.

Furthermore, this study suggests that future research needs to consider digging into deep information, such as pairing the relevant results with statistics in each country that could explain and back up the

thesis or research objective and hypothesis. In addition, interviews are another option, although they are time consuming. Moreover, this is important to verify further research findings.

Malaysia						Bahrain				
	Obv	Avg. Score	Std. Dev.	Min	Max	Obv	Avg. Score	Std. Dev.	Min	Max
2010	90	38.3%	14.3%	18.3%	68.3%	80	35.5%	8.4%	20%	53.3%
2011	90	39.1%	17.5%	15%	81.6%	80	36.2%	8.7%	25%	56.6%
2012	90	40.2%	19.7%	15%	93.3%	80	35.5%	9.1%	18%	56.6%
2013	90	44.6%	15.5%	21.6%	78.3%	80	35.5%	7.6%	20%	48.3%
2014	90	45%	16.2%	18.3%	73.3%	80	38.1%	9.1%	21%	58.3%
5yrs	90	41.4%	16.6%	15%	93.3%	80	36.1%	8.4%	18%	58.3%

Table 7.2: Bahrain & Malaysia Descriptive Overall

Parallel to what has been informed earlier on the previous page, table 7.2 show that Malaysia provides a consistent positive trend even though not by a huge amount. However, Bahrain's statistics fluctuate and are inconsistent. Moreover, observing the maximum value, it is clear that Islamic banks in Malaysia disclose at a higher rate compared to Bahrain where Bahrain falls only between 48% to 58% as compared to Malaysia (68%-93%).

7 SEGE Dimensions					
Variable	Obs	Mean	Std. Dev.	Min	Max
Shariah - D1	170	18.7%	9.8%	0%	51%
Shariah Governance – D2	170	44.6%	12.2%	0%	83%
Social External – D3	170	16.5%	18%	0%	74%
Social Internal – D4	170	25.4%	15.9%	0%	100%
Environment – D5	170	2.4%	7.6%	0%	47%
Ethics – D6	170	6.6%	7.1%	0%	35%
Governance – D7	170	57.4%	18.8%	8%	96%
SEGE : Shariah , Social , Environmental , Governance & Ethics Score					

Table 7.3: 7 Dimensions Descriptive Full Sample

Table 7.3 above refers to the full sample of descriptive statistics for the seven dimensions of disclosure. This will later be divided into more spectrums of which 20 themes are explained in the next page. In general, the most disclosed information in the SEGE dimensions are governance and shariah governance while the dimensions that are ideally expected by social and environmental advocates (environment/ethics/social internal/social external) are on the lower end of the spectrum. Generally,

the statistics signal that Islamic banks give more attention towards governance type disclosure than disclosure related to its business survival.

20 SEGE Themes					
Variable	Obs	Mean	Std. Dev.	Min	Max
<u>SHARIAH – D1</u>	<u>170</u>	<u>18.7%</u>	<u>9.8%</u>	<u>0%</u>	<u>51%</u>
T1-Shariah Compliance	170	23.2%	20.3%	0%	75%
T2-shariah Awareness	170	19.3%	19.4%	0%	85.7%
T3-Zakat	170	19.9%	16.5%	0%	62.5%
T4-Benevolent Loan	170	4.8%	9.3%	0%	44.4%
T5-Islamic Value	170	29.4%	18.5%	0%	100%
<u>SHARIAH GOVERNANCE –D2</u>	<u>170</u>	<u>44.6%</u>	<u>12.2%</u>	<u>0%</u>	<u>83%</u>
T6-Shariah Governance Framework	170	9.5%	15.5%	0%	83.3%
T7-Shariah Supervisory Board	170	62.3%	14.4%	0%	100%
<u>SOCIAL EXTERNAL –D3</u>	<u>170</u>	<u>16.5%</u>	<u>18%</u>	<u>0%</u>	<u>74%</u>
T8-Community Involvement	170	11.4%	20.1%	0%	87.5%
T9-Charity	170	24.9%	23%	0%	87.4%
T10-Sponsorship	170	14.3%	22.4%	0%	87.5%
<u>SOCIAL INTERNAL –D4</u>	<u>170</u>	<u>25.4%</u>	<u>15.9%</u>	<u>0%</u>	<u>100%</u>
T11-Human Resource Management	170	16.6%	21.5%	0%	100%
T12-Reward & Benefit	170	32.0%	15.2%	0%	85.7%
<u>ENVIRONMENT –D5</u>	<u>170</u>	<u>2.4%</u>	<u>7.6%</u>	<u>0%</u>	<u>47%</u>
T13-Nature	170	3.1%	10.6%	0%	66.7%
T14-Wild Life & Animal Right	170	1.6%	7.5%	0%	50%
T15-Recycle	170	3.1%	11.6%	0%	66.7%
<u>ETHICS –D6</u>	<u>170</u>	<u>6.6%</u>	<u>7.1%</u>	<u>0%</u>	<u>35%</u>
T16-Institutional Ethics	170	11.6%	13.3%	0%	66.6%
T17-Business Ethics	170	2.4%	5.3%	0%	27.2%
<u>GOVERNANCE –D7</u>	<u>170</u>	<u>57.4</u>	<u>18.8</u>	<u>8%</u>	<u>96%</u>
T18-Board of Director	170	74.2%	20.3%	10%	100%
T19-Top Management	170	51.3%	46.1%	0%	100%
T20-Guiding Principle of Governance	170	45.0%	19.1%	0%	91%
SEGE : Shariah , Social , Environmental , Governance & Ethics Score				T=Theme	D= Dimension

Table 7.4: 20 Themes SEGE Descriptive

Referring to the table 7.4 above, some of the findings are in accordance with the previous literature and earlier studies, for instance Haniffa and Hudaib (2007) with the lowest level of disclosure for shariah themes and community related themes. Moreover, the lowest of all themes is dominated by environment based themes that ideally can be one of the important aspects for disclosure, as advocated by Rizk (2014) on how Islam promotes environmental sustainability. In addition, the social

role of the Islamic banking environment is still below expectations if the society-related themes of SEGE disclosure are looked at, and this is in accordance with Kamla and Rammal (2013) study.

The top three disclosure themes were board of director (T-18) 74.2%, Shariah supervisory board (T-7) 62.3% and top management (T-19) 51.3%. These findings seem to be consistent with previous research where Islamic banks concentrate more on the directors on a board and its management compared to social and community themes (Haniffa and Hudaib, 2007, Hassan and Harahap, 2010, Belal et al., 2014). As discussed previously, the themes that relate to governance are given more attention by the Islamic banks due to the need to survive and for the sake of powerful and high influence stakeholders. Moving further, the table below will provide 3 level disclosure information.

SEGE Disclosure	Obs	Mean	Std. Dev.	Min	Max
Level 1	170	31.20588	14.76398	7	138
Level 2	170	9.052941	14.17568	0	82
Level 3	170	12.90588	10.25431	0	74
Graphic	170	6.523529	12.39594	0	82

SEGE : Shariah, Social, Environmental, Governance & Ethics Score
Level 1 = Disclosure at the level of phrases, **Level 2** = Disclosure at the level of policy and graphic, **Level 3** = Disclosure at the level of statistical figure
Graphic= Disclosure of picture, designer table. Details of procedure of level 1,2 & 3 explained in chapter 4 section 4.3.7 Quality Content Analysis Score

Table 7.5: 3 Level Disclosure Descriptive

Table 7.5 shows the 3 level disclosure commitment as whole for Malaysia and Bahrain. It is clear that level 1, which is phrases level disclosure, is dominant as compared to level 2 and level 3. This is, however, expected as the higher the level the more requirements need to be fulfilled. Interestingly, it seems that Islamic banks across the two countries seem to disclose statistical proof (level 3) more as compared to policy disclosure (level 2).

These statistics are for the whole sample. However, when the statistics are segregated into countries, the differences between the countries will be clearer. This will be presented in the next page.

MALAYSIA					
SEGE Disclosure	Obs	Mean	Std. Dev.	Min	Max
Level 1	90	30.17	17.60	7	138
Level 2	90	11.20	17.77	0	82
Level 3	90	16.13	12.55	0	74
Graphic	90	8.48	15.89	0	82

SEGE : Shariah, Social, Environmental, Governance & Ethics Score
Level 1 = Disclosure at the level of phrases, **Level 2** = Disclosure at the level of policy and graphics, **Level 3** = Disclosure at the level of statistical figures
Graphic= Disclosure of picture, designer table. For a detailed procedure for level 1,2 and 3 kindly refer to the methodology chapter

Table 7.6: Malaysian Islamic Banks 3 level Commitment

BAHRAIN					
SEGE Disclosure	Obs	Mean	Std. Dev.	Min	Max
Level 1	80	32.38	10.72	7	55
Level 2	80	6.638	7.943	0	47
Level 3	80	9.28	4.73	0	20
Graphic	80	4.33	5.91	0	25

SEGE : Shariah, Social, Environmental, Governance & Ethics Score
Level 1 = Disclosure at the level of phrases, **Level 2** = Disclosure at the level of policy and graphic, **Level 3** = Disclosure at the level of statistical figure
Graphic= Disclosure of picture, designer table. For a detailed procedure for level 1,2 and 3 kindly refer to the methodology chapter

Table 7.7: Bahraini Islamic Banks 3 level Commitment

The commitment between Malaysia and Bahrain can be clearly seen in the comparison of table 7.6 and 7.7 above. Malaysia is way above Bahrain in level 3 disclosure with 16 counts on average compared to 9 counts for Bahrain. In Bahrain, the higher the level, the lesser the disclosure. However, for Malaysia, the trend is the same as the whole sample discussed previously in the last page. This is another indicator to show that, in order to study Islamic banks' social reporting disclosure, an ideal study needs to segregate the results by each country as each country has different levels of stakeholder maturity, cultural diversity and values that cannot be generalised. The different statistical results for both countries have their own reasoning and interpretation based on the influence and sensitivity of the stakeholders inside each country in addition to the cultural setting and countries' values in religiosity and regulatory adherence. This will be discussed further in chapter 8 discussion and conclusion.

7.2.2. Correlation of Variable

<u>PEARSON CORRELATION</u>	SEGE SCORE	REGULATORY QUALITY	IMPORTANT OF RELIGION	LISTED	BANK AGE	BOD SIZE	SSB SIZE	NED	SIZE	PROFITABILITY	ROA	GDP (GDP GROWTH RATE)
SEGE DISCLOSURE SCORE	1											
REGULATORY QUALITY	0.011	1										
IMPORTANT OF RELIGION	0.1939*	-0.4792*	1									
LISTED	0.3231*	0.1612*	-0.3364*	1								
BANK AGE	0.5623*	0.0779*	-0.0917*	0.2936*	1							
BOD SIZE	0.2851*	0.1235*	-0.33*	0.2583*	0.2066*	1						
SSB SIZE	0.3999*	-0.0551*	0.5284*	0.0381	0.3067*	0.0542*	1					
NED	-0.2212*	-0.041	0.0718*	0.0432	-0.4414*	0.057*	0.0362	1				
SIZE	0.4042*	-0.2668*	0.567*	0.1428*	0.2607*	0.0198	0.5139*	0.1549*	1			
PROFITABILITY	0.1857*	-0.303*	0.5156*	-0.1752*	0.0644*	-0.1698*	0.2853*	0.0753*	0.512*	1		
ROA	0.0719*	-0.2128*	0.1987*	-0.0362	0.1207*	-0.0146	0.0753*	-0.0232	0.1723*	0.5723*	1	
GDP (GDP GROWTH RATE)	0.098*	-0.5916*	0.6698*	-0.2254*	-0.0576*	-0.1962*	0.2667*	0.022	0.3877*	0.3805*	0.1731*	1

This table displays the Pearson correlation matrix for the covariates: the test variable, interest variable and main control variable. **SEGE score** is the score derived from the quality disclosure score of the annual report. **Regulatory quality** is the score gathered from world governance indicator. **Religiosity** is the data gathered from world values survey based on the percentage of respondents indicating that religion is important to them. **Listed:** The dummy variable takes a value of 1 if the bank is listed on the stock exchange of the respective country and 0 otherwise. **Bank Age:** The bank age since its foundation. **BOD Size:** Number of board members. **SSB Size:** Number of Shariah Supervisory Board Members. **NED: Percentage of Non-Executive Directors inside the board.** **Size:** Natural logarithm of the total assets. **Profitability:** Natural logarithm of the net income. **ROA:** Ratio of earnings before interest and tax divided by total assets. **GDP:** Growth rate of the gross domestic product of the country as a proxy for macroeconomic factors. *: Statistical significance at the 5% level.

Table 7.8: Pearson Correlation Matrix

A correlation matrix analysis is carried out to detect any possible autocorrelation between SEGE quality disclosure with each interesting and main control variable. This is to ensure that the correlation between each variable is at an acceptable level as having too high a correlation might affect the result's reliability. In addition, the correlation matrix coefficient is also expected to assess and test the construct validity of the measurement and to check for multi-collinearity. Overall, there is no significantly high correlation between the variables involved. Referring to the table 7.8 in the last page, the Pearson correlation shows the association of each variable and the significant association is set and identified at a 95% confidence level or is statistically significant at the 5% level.

The results show that SEGE score is significant on almost all variables. Most of these results are in agreement with the previous literature. For instance, SSB is positively significant with SEGE disclosure which is in agreement with Mallin et al. (2014) and Farook et al. (2011) as they argue that larger sizes of SSBs lead to higher social responsibility disclosure due to an increase in the capacity of the monitoring role.

Moreover, the proportion of the BOD is highly significant to SEGE disclosure and is positively associated with SEGE disclosure quality. This suggests the positive impact of board size on SEGE disclosure. The significant correlation between the majority of all of the control variables and the dependant variables signals the importance and significance of controlling for these variables in the regression estimation.

Furthermore, as far as multi collinearity is concerned, multi collinearity is tested based on the correlation incorporating all independent and control variables. All correlation score matrices are less than 0.8, the cut-off limit generally suggested by prior literature, as multi collinearity is likely to exist between the scores of 0.8 and above as argued by Gujarati and Porter (2003). The results from table 6.8 above suggest there is nothing to be concerned about for multi collinearity between the variables.

7.2.3. Hausman Test

Chi2 (9)	=	$(b-B)' [(v_b - v_B)^{-1}] (b-B)$
	=	7.97
Prob>chi2	=	0.5370 (The prob>chi2 suggest that the random effect is favourable compared to the fixed effect estimation)
(v_b-v_B is not positive)		

Table 7.9: Hausman Test for the Model

The Hausman test was undertaken to determine whether the consistent fixed effect (FE) or the efficient random effect (RE) is suitable for the model estimator (Stata Journal, 2017). To perform this, the estimation for the random effect is run and stored in the Stata system and the fixed effect estimation was refitted to make it current. Then, the Hausman test was run. The results above indicate that the random effect is more efficient and suitable for the model estimation since the p-value is more than 0.05. Furthermore, for the full results and details of the Hausman test, please refer to Appendix 13.

Moreover, after confirming a suitable random effect estimator, the Breush and Pagan Langrangian Multiplier test for Random Effect was conducted to assess whether the random effect (RE) estimator is suitable compared to the Ordinary Least Square (OLS) estimator. The test is presented in the next page.

7.2.4. Breush and Pagan Langrangian Multiplier test for Random Effect

<u>Chibar2(01)</u>	=	152.40
Prob > chibar2	=	0.0000 (Random Effect Suitable for the estimation)

Table 7.10: Lagrange Multiplier (LM)Test

The essence of the Lagrange multiplier (LM) is that the variance across entities is assumed to be zero (Torres-Reyna, 2007). Moreover, it helps in making a decision between the random effect and simple OLS regression (Stata Journal, 2017). Based on the result, the null (there is no difference across units) was successfully rejected. There is evidence that there are significant differences between units or, in other terms, there is a panel effect. Therefore, the random effect estimator is more appropriate for the regression estimation. To get the full results and details of the Lagrange Multiplier test, please refer to Appendix 14.

Based on the test results from the Hausman test and Lagrange multiplier (LM) previously, the thesis employed a random effect estimator based on the assumption of restrictive error terms' correlation. Furthermore, the estimated standard errors were corrected to control for heteroscedasticity and cluster at the unit level. The command included the parameter [xtreg variable 1,2,3.... n, re robust cluster (id)] to ensure that the best possible measurement was taken in the estimation. The main model for the estimation regression will be presented in the next page and subsection.

7.3. Pooled Model Estimation (Malaysia-Bahrain)

7.3.1. Main Quality Score & Model Estimation

Random-effects GLS regression

Group variable: id

R-sq:

within = 0.1779

between = 0.5387

overall = 0.4921

SEGE Disclosure	Coef.	P>z
Regulatory Quality	.742264	0.006
Religiosity	.267507	0.001
Listed	.096629	0.016
Bank Age	.006424	0.000
BOD Size	.006729	0.212
SSB Size	.0000735	0.988
NED	-.01019	0.671
Size(Ln Total Asset)	-0.0046	0.499
Profitability (ln Net income)	.001652	0.422
ROA	-.05645	0.332
GDP(GDP Growth Rate)	-.14224	0.805
_cons	-.43072	0.045

SEGE : Shariah , Social , Environmental , Governance & Ethics Score

This table displays the main model random effect estimation. **SEGE Score**: The score derived from the quality disclosure score from the annual report. **Regulatory Quality**: The score gathered from the world governance indicator. **Religiosity**: The data gathered from the world values survey based on the percentage of respondents indicating that religion is important to them. **Listed**: Dummy variable taking a value of 1 if the bank is listed on the stock exchange of the respective country and 0 otherwise. **Bank Age**: The bank's age since its foundation. **BOD size**: Number of board members. **SSB size**: Number of shariah supervisory board members. **NED**: Percentage of non-executive directors on the board. **Size**: Natural logarithm of total assets. **Profitability**: Natural logarithm of net income. **ROA**: Ratio of earnings before interest and tax divided by total assets. **GDP**: Growth rate of the gross domestic product of a country as a proxy for macroeconomic factors. Standard error is robust and adjusted for 34 clusters in ID.

Table 7.11 : Main Model Estimation (Pooled-Malaysia & Bahrain)

Referring to table 7.11, R-square indicates that the model explains 49.21% of the variability of the response data around the mean. Compared to a similar study investigating the effect of religiosity, the R-squared does not go very far in explaining the model. For instance, in Kanagaretnam et al. (2015) the model's R-squared is 54.9%, suggesting that religiosity impacts earning transparency disclosure

positively. Moreover, there are studies where the R squared only explains between 20% to 25%. For example, the study of Du (2013) had a 22.5% R-squared and found that religiosity could restrain the manager from unethical behaviour. Furthermore, in literature that studies religiosity and risk, the R squared model of Gao et al. (2017) was at 53.3% and Chircop et al. (2017) was at 33.9%, where they found that religiosity also affected risk-taking behaviour. Therefore, it is understandable that religiosity might have be influential and explain social disclosure since it is proven in the literature to explain ethical behaviour, risk, and social responsibility (Gao et al., 2017, Chircop et al., 2017, Kanagaretnam et al., 2015, Walker et al., 2012, McGuire et al., 2012b, McGuire et al., 2012a).

The summary of the main model presented in table 7.11 is the main interest of the research. It serves as a benchmark for the Islamic banking industry as the countries involved in the pooled estimation are countries that play an important role in the Islamic banking and finance field. Moreover, both countries have initiatives for promoting and sustaining the Islamic banking and finance business, even though there will be many differences between the two countries. Nevertheless, the two countries are key players and the main drivers in shaping the Islamic finance world (Mohd. Yusof and Bahlous, 2013). Refer to Appendix 15 for the full results and details of the main model.

The main interest variable is significant at 5% and 1% for both regulatory quality and religiosity. It is argued that developing countries like Malaysia and Bahrain might have less awareness of regulatory quality (Azmat and Samaratunge, 2009). However, the results are supported by Djalilov and Holscher (2017) who found that banks are likely to engage in social responsibility activities when the regulatory quality level increases. Furthermore, banks are an important institution in the economy of a country. Banks are normally well governed compared to other business entities such as the food and beverage business industry. Moreover, banks anywhere in the world are governed and regulated by central banks which make regulatory quality performance inevitable in affecting bank activities. This thesis is in accordance with de Villiers and Marques (2016) where social responsibility disclosure is better in a country that is more democratic and has better regulatory quality.

In terms of religiosity, since the individual orientation of a religion's ethics influences the social responsibility direction (Jamali and Sdiani (2013), it is possible that large numbers of individuals that work in the bank can influence the bank's orientation towards social reporting. The religiosity estimation being highly significant towards SEGE disclosure might be explained by the above discussion. Moreover, Dyreng et al. (2012) found that religiosity affects financial reporting and this might possibly extend to social reporting as well since a high association with religiosity is proven to reduce irregularity in financial reporting (McGuire et al., 2011). This thesis advocates that religiosity has a positive relationship towards social reporting and the religiosity of a society plays an important role in shaping Islamic bank social reporting.

Even though the results suggest that religiosity and regulatory quality have a significant effect towards the SEGE disclosure quality of Islamic banks, the results need to be paired with other separate regression estimations by both countries separately and utilise other relevant statistics for the variables that cannot be tested due to slow moving data (changes over long periods of time), in order to see which countries have a significant effect. In the later part in this chapter, the slow-moving data (Religiosity) will be compared between countries to see which countries are really affected by religiosity and which countries are most likely to disclose more SEGE disclosure.

The significance of religiosity towards disclosure can be linked to the social norms theory where religiosity affects ethical decisions inside the corporate environment as part of the values embedded in a society (Adhikari, 2014). Moreover, the wider coverage of Islamic bank stakeholders also includes the wider society, which makes the moral responsibility of Islamic banks tied to the demand of societal norms (Reno et al., 1993). The study's findings are in one way or another connected and in agreement with Walker et al. (2012) where ethical judgement is influenced by religiosity, such as in this study, and social disclosure (judgement to disclose information) is influenced by religiosity. Furthermore, Du (2013) findings support that religion can also influence managers to disclose ethically.

Furthermore, referring to table 7.11, apart from the interest variable discussed previously, there are control variables that are significant towards the disclosure of Islamic banks, namely bank age (age of the bank since establishment). The thesis found that the age of the banks is positively significant towards SEGE disclosure, and this results in agreement with Roberts (1992) where she advocates that the longer the company's existence, the more engagement it has with social responsibility activity and social reporting initiatives so as to care for company reputation. This result is also consistent with Brammer et al. (2007) and Al-Tuwaijri et al. (2004) where they found that large banks are likely to monitor activities that will affect wider groups of stakeholders. Furthermore, the results are also in line with Mallin et al. (2014) where they specifically study Islamic banks as the sample, which are a stronger link to this thesis. In the next section, the main model will be tested by adding more relevant control variables to test whether the interest variable's (religiosity and regulatory quality) significant value changes.

7.3.2. Robustness and Sensitivity of Model

7.3.2.1. Logit and Probit Model

INTEREST VARIABLE	High Low Quality SEGE Disclosure	
	Logit	Probit
Regulatory Quality	44.04* (23.40)	25.09* (13.34)
Religiosity	7.487* (4.289)	4.203* (2.431)
FIRM LEVEL CONTROL		
Listed	2.932 (2.376)	1.528 (1.296)
Bank Age	0.171 (0.108)	0.0943 (0.0611)
BOD Size	0.576** (0.253)	0.320** (0.142)
SSB Size	-0.0738 (0.429)	-0.0245 (0.249)
NED	-0.697 (2.167)	-0.203 (1.245)
Size(Ln Total Asset)	-0.0170 (0.816)	-0.0106 (0.469)
ROA	-9.371* (5.337)	-4.796* (2.874)
Profitability (ln Net income)	0.204 (0.172)	0.0900 (0.0931)
COUNTRY LEVEL CONTROL		
GDP(GDP Growth Rate)	-12.14 (34.73)	-2.458 (19.22)
_cons	-40.72** (19.99)	-23.31** (11.42)
Insig2u	1.848*** (0.691)	0.759 (0.689)
N	170	170

Standard errors in parentheses

* p<0.1

** p<0.05

***p<0.01

This table displays the Logit and Probit Panel Data Regression. **Hi_Lo SEGE Score**: High performance Disclosure=1 Low Performance Disclosure. **Regulatory Quality**: The score gathered from the world governance indicator. **Religiosity**: the data gathered from the world values survey based on the percentage of respondents indicating that religion is important to them. **Listed**: Dummy variable taking a value of 1 if the bank is listed on the stock exchange of the respective country and 0 otherwise. **Bank Age**: The bank's age since its foundation. **BOD size**: Number of board members. **SSB size**: Number of shariah supervisory board members. **NED**: Percentage of non-executive directors inside the board. **Size**: Natural logarithm of total assets. **Profitability**: Natural logarithm of net income. **ROA**: Ratio of earnings before interest and tax divided by total assets. **GDP**: Growth rate of the gross domestic product of a country as proxy for macroeconomic factors.

Table 7.12 : Logit & Probit Model Regression Panel Data

In order to test the robustness of the main model, the logit and probit regression was conducted. The high-performance group and low performance group of the disclosure score was determined and labelled as (1) and (0). This later was regressed using a logit and probit command for panel data (Statistic---->Binary Outcomes---->Panel Logistic Regression---->Panel Logistic Regression).

Referring to table 7.12, the results show that when regulatory and religiosity increase, the probability for high disclosure also increases. The result is identical for both logit and probit models at the 10% significance level. This is one of the extra methods to investigate whether the variable in the model can explain the SEGE disclosure and to test for the robustness of the model created.

Moving further, another method to test the model's robustness is by adding a relevant control variable to the main model to observe the changes of the significant value in the interest variable (regulatory quality and religiosity). This will be presented and discussed in the next sub section.

7.3.2.2. Adding Control Variable

INTEREST VARIABLE		Quality SEGE Disclosure (Robust Std. Err. -Std. Err. Adjusted for 34 clusters in id)				
	(1)	(2)	(3)	(4)	(5)	(6)
Regulatory Quality	0.764*** (0.245)	0.772*** (0.248)	0.773*** (0.249)	0.769*** (0.248)	0.740*** (0.272)	0.634** (0.281)
Religiosity	0.264*** (0.0751)	0.263*** (0.0743)	0.279*** (0.0752)	0.272*** (0.0790)	0.276*** (0.0863)	0.283*** (0.0876)
FIRM LEVEL CONTROL						
Listed	0.0948** (0.0404)	0.0970** (0.0405)	0.0910** (0.0419)	0.0809 (0.0507)	0.0808 (0.0506)	0.0846 (0.0520)
Bank Age	0.00641*** (0.00112)	0.00639*** (0.00111)	0.00658*** (0.00119)	0.00657*** (0.00122)	0.00660*** (0.00127)	0.00627*** (0.00116)
BOD Size	0.00616 (0.00510)	0.00668 (0.00533)	0.00660 (0.00536)	0.00645 (0.00540)	0.00650 (0.00545)	0.00658 (0.00540)
SSB Size	0.000406 (0.00440)	0.000261 (0.00444)	-0.000153 (0.00451)	0.000132 (0.00456)	-0.0000414 (0.00486)	-0.00155 (0.00489)
NED	-0.0113 (0.0249)	-0.00944 (0.0243)	-0.00637 (0.0249)	-0.00632 (0.0249)	-0.00711 (0.0246)	-0.0118 (0.0251)
Size(Ln Total Asset)	-0.00199 (0.00583)	-0.00482 (0.00682)	-0.00479 (0.00677)	-0.00752 (0.00655)	-0.00732 (0.00662)	-0.00603 (0.00623)
ROA	-0.0314 (0.0476)	-0.0558 (0.0574)	-0.0620 (0.0592)	-0.0587 (0.0593)	-0.0592 (0.0600)	-0.0702 (0.0627)
Profitability (ln Net income)		0.00162 (0.00200)	0.00170 (0.00204)	0.00163 (0.00204)	0.00165 (0.00209)	0.00153 (0.00197)
Ownership			-0.0161 (0.0161)	-0.0274 (0.0256)	-0.0270 (0.0259)	-0.0235 (0.0255)
Size (Paid-up Capital 1 bill)				0.0208 (0.0284)	0.0208 (0.0284)	0.0224 (0.0283)
COUNTRY LEVEL CONTROL						
GDP (GDP Growth Rate)					-0.136 (0.581)	-0.298 (0.626)
Corruption Control (WGI)						0.173 (0.117)
_cons	-0.461 (0.198)	-0.455 (0.199)	-0.454 (0.200)	-0.425 (0.191)	-0.402 (0.204)	-0.438 (0.207)
N	170	170	170	170	170	170
Standard errors in parentheses		* p<0.1	** p<0.05	*** p<0.01	SEGE : Shariah , Social , Environmental , Governance & Ethics Score	

This table displays the main model estimation. **SEGE Score**: The score derived from the quality disclosure score of the annual report. **Regulatory Quality**: The score gathered from the world governance indicator. **Religiosity**: The data gathered from the world values survey based on percentage of respondents indicating that religion is important to them. **Listed**: Dummy variable taking a value of 1 if the bank is listed on the stock exchange of the respective country and 0 otherwise. **Bank Age**: The bank's age since its foundation. **BOD size**: The number of board members. **SSB size**: The number of shariah supervisory board members. **NED**: Percentage of non-executive directors inside the board. **Size**: Natural logarithm of the total assets. **Ownership**: Percentage of ownership by public. **Profitability**: Natural logarithm of net income. **ROA**: Ratio of earnings before interest and tax divided by total assets. **GDP**: Growth rate of the gross domestic product of the country as a proxy for macroeconomic factors. **Corruption Control**: World Governance Indicator score. Standard error is robust and adjusted for 34 clusters in ID.

The discussion in section 7.3.2.2 is still on the main model. However, the main model has been tested with the addition of a control variable to determine whether regulatory quality and religiosity are still significant. Overall, for the pooled data (both countries), there is evidence that regulatory quality and religiosity significantly affect SEGE disclosure positively. However, to get more accurate results and interpretations for individual countries, a separate religiosity scores needs to be compared for each country. From the above results, the thesis may suggest that the higher the religiosity, the higher the SEGE disclosure is for the banks. On the other hand, which countries are more affected can be seen with the religiosity score obtained in the World Value Survey.

The relationship of religiosity with SEGE disclosure has been determined. However, to see which country performs better, the real religiosity score needs to be observed.

<u>COUNTRY</u>	<u>RELIGIOSITY SCORE (WORLD VALUE SURVEY)</u>
MALAYSIA	84.8 %
BAHRAIN	40.6 %

Table 7.13: Religiosity by Country

The statistical estimation suggests that the importance of religion affects SEGE disclosure positively. Therefore, it is important to observe the real difference between the countries. This is because religious perspectives do not change in a short time of period. Referring to table 7.13 above, it is clear that Malaysia’s score is high and the difference between Malaysia and Bahrain is huge (44.2%). This signals that between Malaysia and Bahrain, Malaysian Islamic banks are more likely to have high SEGE disclosure as compared to Bahrain. This result provides an insight for future research in that the local behaviour of a society, especially the culture and beliefs of a particular nation or area, might also affect disclosure commitment. Currently, much research in the Islamic banking area concentrates on financial characteristics, for instance see Mallin et al. (2014) and Farook et al. (2011). However, since Islamic banks are closely related to religious value, it is important to observe the interrelated and interconnected values that might affect disclosure. In the next section, the regression will provide statistical evidence on high religiosity countries’ relations to disclosure.

7.3.3. Comparative Model

SEGE Disclosure Quality_{it}

$$= \alpha_0 + \beta_1 \text{High Religiosity Country}_{it} + \beta_2 \text{Regulatory Quality}_{it} + \sum_{i=1}^n \beta_i \text{Control} + u_{it} + \varepsilon_{it}$$

Random-effects GLS regression

Group variable: id

R-sq:

within = 0.1779

between = 0.5387

overall = 0.4921

corr(u_i, X) = 0 (assumed)

SEGE Disclosure	Coef.	P>z
High Religious Country	.118238	0.001
Regulatory Quality	.7422641	0.006
Listed	.0966293	0.016
Bank Age	.0064243	0.000
BOD Size	.0067293	0.212
SSB Size	.0000735	0.988
NED	-.01019	0.671
Size(Ln Total Asset)	-0.0046	0.499
Profitability (ln Net income)	.001652	0.422
ROA	-.05645	0.332
GDP(GDP Growth Rate)	-.14224	0.805
_cons	.3221141	0.147

SEGE : Shariah , Social , Environmental , Governance & Ethics Score

This table displays the differential statistical model random effect estimation. **SEGE Score**: The score derived from the quality disclosure score of the annual report. **Regulatory Quality**: The score gathered from the world governance indicator. **High Religious Country**: Value of 1 for a highly religious country and 0 for a less religious country. **Listed**: Dummy variable taking the value of 1 if the bank is listed on the stock exchange of the respective country and 0 otherwise. **Bank Age**: The bank's age since its foundation. **BOD size**: The number of board members. **SSB size**: The number of shariah supervisory board members. **NED**: The percentage of non-executive directors inside the board. **Size**: The natural logarithm of total assets. **Profitability**: The natural logarithm of net income. **ROA**: The ratio of earnings before interest and tax divided by total assets. **GDP**: The growth rate of the gross domestic product of country as a proxy for macroeconomic factors. Standard error is robust and adjusted for 34 clusters in ID.

Table 7.14: Highly Religious Country

$$\begin{aligned}
& SEGE \text{ Disclosure Quality}_{it} \\
& = \alpha_0 + \beta_1 \text{Regulatory Quality}_{it} + \beta_2 \text{Regulatory Quality} \times \text{Country Dummy}_{it} \\
& + \sum_{i=1}^n \beta_i \text{Control} + u_{it} + \varepsilon_{it}
\end{aligned}$$

Random-effects GLS regression

Group variable: id

R-sq:

within = 0.1803

between = 0.5399

overall = 0.4934

corr(u_i, X) = 0 (assumed)

SEGE Disclosure	Coef.	P>z
Regulatory Quality	.6093331	0.036
Interact_Reg_Quality	.1664968	0.001
Listed	.0986872	0.014
Bank Age	.0063443	0.000
BOD Size	.0067965	0.205
SSB Size	.0005571	0.906
NED	.0110447	0.643
Size (Ln Total Asset)	-.0044784	0.512
Profitability (ln Net income)	.0016469	0.420
ROA	-.0599767	0.304
GDP(GDP Growth Rate)	-.2366069	0.688
_cons	-.2192581	0.349

SEGE : Shariah , Social , Environmental , Governance & Ethics Score

This table displays the differential statistical model random effect estimation. **SEGE Score**: The score derived from the quality disclosure score of the annual report. **Regulatory Quality**: The score gathered from the world governance indicator. **Interactive regulatory Quality**: Country value times regulatory quality score. **Listed**: Dummy variable taking a value of 1 if the bank is listed on the stock exchange of the respective country and 0 otherwise. **Bank Age**: The bank's age since its foundation. **BOD size**: The number of board members. **SSB size**: The number of shariah supervisory board members. **NED**: Percentage of non-executive directors inside the board. **Size**: Natural logarithm of total assets. **Profitability**: Natural logarithm of net income. **ROA**: Ratio of earnings before interest and tax divided by total assets. **GDP**: Growth rate of the gross domestic product of a country as proxy for macroeconomic factors. Standard error is robust and adjusted for 34 clusters in ID.

Table 7.15: Interactive Regulatory Quality

In order to identify a whether highly religious countries have an effect towards disclosure quality, the comparative regression in table 7.14 has been conducted. Looking at the r-squared, the model explains 49.21% of the SEGE disclosure. Furthermore, the regression provides evidence that highly

religious countries are more likely to increase SEGE disclosure with a 1% significance value. Moreover, regulatory quality is also significant at 1%. This provides supporting statistical evidence towards the descriptive value of religiosity in the world value survey explained previously.

Moving further, referring to table 7.15, the interactive regulatory score was created (country value times the regulatory score) in order to obtain the interactive value for regulatory quality. This is to predict whether the regulatory quality is different between the countries and affects the SEGE disclosure. Based on the result, the interactive variable is positive, and the coefficient makes the normal regulatory coefficient stronger and supports the regulatory effect on SEGE disclosure. Moreover, the model above excludes religiosity as the interactive variable is highly correlated to the religiosity variable.

The next section will provide evidence on the relationship of the seven dimensions of SEGE disclosure with regulatory quality and religiosity.

7.3.4. 7 Dimensions Disclosure

DIMENSION	D 1	D2	D3	D4	D5	D6	D7
Robust Std. Err.	<u>SHARIAH</u>	<u>SHARIAH</u> <u>GOVERNANCE</u> <u>SYSTEM</u>	<u>SOCIAL</u> <u>EXTERNAL</u>	<u>SOCIAL</u> <u>INTERNAL</u>	<u>ENVIRONMENT</u>	<u>ETHIC</u>	<u>GOVERNANCE</u>
Regulatory Quality	1.133 (0.694)	0.214 (0.712)	2.355** (0.945)	-0.181 (0.819)	0.339 (0.641)	1.396 (1.010)	-0.512 (0.364)
Religiosity	0.435*** (0.130)	0.581*** (0.179)	0.247 (0.196)	0.631*** (0.197)	0.247** (0.112)	0.0418 (0.132)	-0.0748 (0.102)
Listed	0.107** (0.0480)	-0.103 (0.0834)	0.250*** (0.0753)	0.0975 (0.0971)	0.0922 (0.0725)	0.0836 (0.0531)	0.0891** (0.0391)
Bank Age	0.00670*** (0.00228)	0.00183 (0.00299)	0.00983*** (0.00203)	0.00826*** (0.00269)	0.00371*** (0.000945)	0.00878*** (0.00199)	0.00195 (0.00133)
BOD Size	0.00278 (0.00777)	-0.00139 (0.00755)	0.0296** (0.0143)	0.00216 (0.0127)	0.00351 (0.00544)	0.0117** (0.00588)	0.00863 (0.00742)
SSB Size	0.000616 (0.0140)	0.0164 (0.0148)	0.00767 (0.0140)	-0.0212 (0.0221)	-0.00372 (0.00397)	0.00310 (0.0122)	-0.00241 (0.00698)
NED	0.0353 (0.0556)	0.0416 (0.0418)	-0.0660 (0.0641)	-0.0149 (0.0849)	-0.0431* (0.0225)	-0.0264 (0.0599)	-0.0157 (0.0387)
Size(Ln Total Asset)	-0.0190 (0.0178)	0.0162 (0.0233)	-0.00615 (0.0249)	-0.0384 (0.0454)	0.00577 (0.0140)	-0.0215 (0.0251)	0.0178* (0.0107)
Profitability (ln Net income)	0.00430 (0.00343)	0.000645 (0.00435)	0.00364 (0.00544)	-0.00405 (0.00526)	-0.00150 (0.00302)	0.00732* (0.00418)	-0.00125 (0.00306)
ROA	-0.167 (0.116)	0.0372 (0.133)	-0.150 (0.183)	0.0294 (0.196)	0.0342 (0.0682)	-0.0308 (0.150)	0.0165 (0.111)
GDP (GDP Growth Rate)	0.771 (0.974)	-0.932 (0.954)	-1.005 (1.392)	-0.188 (1.465)	-0.101 (0.805)	0.0380 (0.925)	-0.539 (0.616)
_cons	-0.717 (0.523)	-0.157 (0.597)	-1.864 (0.775)	0.762 (0.742)	-0.456 (0.515)	-0.948 (0.822)	0.804 (0.293)
N	170	170	170	170	170	170	170

Standard errors in parentheses

* p<0.1

** p<0.05

*** p<0.01

SEGE Score: The score derived from the quality disclosure score of the annual report. **Regulatory Quality:** The score gathered from the world governance indicator. **Religiosity:** The data gathered from the world values survey based on the percentage of respondents indicating that religion is important to them. **Listed:** Dummy variable taking a value of 1 if the bank is listed on the stock exchange of the respective country and 0 otherwise. **Bank Age:** The bank's age since its foundation. **BOD size:** Number of board members. **SSB size:** Number of shariah supervisory board members. **NED:** Percentage of non-executive directors inside the board. **Size:** Natural logarithm of total assets. **Profitability:** Natural logarithm of net income. **ROA:** Ratio of earnings before interest and tax divided by total assets. **GDP:** Growth rate of the gross domestic product of a country as a proxy for macroeconomic factors. Standard error is robust and adjusted for 34 clusters in ID.

Table 7.16: SEGE 7 Dimensions (Heptagonal Dimensions)

Table 7.16 presents the results of the Generalised Least Squares panel regression with a robust standard error of the SEGE seven dimensions. Moreover, the table in the last page illustrates the proportion of the seven dimensions of SEGE disclosure. What stands out in the table is that Shariah (Dimension-1) and Shariah Governance (Dimension-2) are highly significant to the importance of religion as a proxy of religiosity. It is an interesting finding that both religion-related dimensions are highly significant to the religious variable. These findings signal that the Islamic banks that operate in a religious environment tend to disclose more information on religious factors such as shariah and shariah governance related themes. Moreover, social internal and environment are also positively significant towards religiosity.

Even though limited numbers of studies specifically study the relationship between disclosure and religiosity, previous literature, for instance Brammer et al. (2007), has touched upon the attitudes of religious people towards corporate social responsibility where a religious person has different attitudes towards a firm's responsibility as compared to a non-religious person. In prior literature, a consistent signal given is that religiosity provides positive moral and noble characteristics. For instance, Kanagaretnam et al. (2015) found that management earnings are less in a society that has high religiosity, and Barnett et al. (1996) found that those employees with a high sense of religiosity are more likely to report peer misconduct in an organisation. All this literature in one way or another supports the thesis' findings.

In relation to this study, the same essence of moral and noble character which the research expects and predicts is that Islamic banks which are based on religious principles and operate in a religious environment will perform better in disclosure related to religious values and social aspects. The results above are consistent with the research expectations. Moreover, the results are consistent with stakeholder theory and the social norms perspective that the majority of the stakeholders that are

influenced by social norms may contribute to the significance of social disclosure. Next, the selected themes from the twenty-themes estimation will be reported.

7.3.5. Selected Themes Disclosure

Robust Std. Err (Adjusted for 34 clusters in ID.)	<u>Shariah Compliance</u>	<u>Zakat</u>	<u>Benevolent Loan / Qard Hassan</u>	<u>Shariah Governance Framework</u>	<u>Charity</u>	<u>Sponsorship</u>	<u>Human Resource and Capital Management</u>	<u>Reward and Benefit</u>	<u>Nature</u>	<u>Guiding Principle of Governance</u>
Regulatory Quality	4.858** (2.454)	1.769** (0.884)	-0.585 (1.187)	0.677 (1.227)	3.954** (1.943)	2.160 (1.339)	-0.383 (0.775)	0.145 (1.382)	1.356** (0.652)	0.102 (0.560)
Religiosity	0.0799 (0.288)	0.830*** (0.226)	1.255*** (0.331)	0.991*** (0.237)	-0.125 (0.360)	0.501* (0.261)	0.737** (0.368)	0.562* (0.317)	0.413* (0.218)	0.416*** (0.143)
Listed	0.244* (0.130)	-0.0892 (0.112)	0.227 (0.139)	0.0295 (0.0843)	0.320*** (0.105)	0.231* (0.140)	0.237 (0.201)	-0.0208 (0.136)	0.169 (0.116)	0.0992 (0.0668)
Bank Age	0.00422 (0.00525)	0.00528 (0.00356)	0.0105** (0.00489)	0.00217 (0.00392)	0.00764** (0.00375)	0.0100*** (0.00326)	0.0172*** (0.00527)	-0.000748 (0.00330)	0.00559** (0.00222)	0.000870 (0.00209)
BOD Size	0.0114 (0.0199)	-0.000774 (0.00849)	-0.000968 (0.0134)	-0.00193 (0.0102)	0.00975 (0.0176)	0.0539*** (0.0187)	-0.0158 (0.0182)	0.00885 (0.0124)	0.00318 (0.0112)	0.0170* (0.00870)
SSB Size	0.0847*** (0.0314)	-0.0522** (0.0233)	-0.0717** (0.0365)	0.0270 (0.0264)	0.0637** (0.0289)	-0.0244 (0.0209)	-0.0586* (0.0353)	0.00561 (0.0288)	-0.0200 (0.0138)	-0.0107 (0.0154)
NED	0.0828 (0.115)	-0.0807 (0.0961)	-0.0253 (0.139)	0.0795 (0.0600)	-0.153 (0.122)	-0.0869 (0.0850)	-0.0784 (0.132)	0.0120 (0.113)	-0.0697* (0.0375)	-0.0265 (0.0689)
Size(Ln Total Asset)	-0.0295 (0.0728)	0.107*** (0.0330)	-0.0595 (0.0626)	0.0275* (0.0151)	-0.0625 (0.0680)	0.0399 (0.0293)	-0.0557 (0.0509)	-0.0215 (0.0538)	0.0204 (0.0244)	-0.0193 (0.0235)
Profitability (ln Net income)	-0.00493 (0.0138)	-0.00745 (0.00539)	0.00647 (0.00787)	0.00174 (0.00331)	0.00249 (0.0103)	0.00454 (0.00727)	0.000502 (0.00847)	-0.0113 (0.00803)	-0.00505 (0.00762)	0.00315 (0.00337)
ROA	0.206 (0.301)	-0.0503 (0.119)	-0.593 (0.377)	-0.0191 (0.0763)	-0.0506 (0.256)	-0.409 (0.329)	-0.0671 (0.351)	0.164 (0.175)	0.133 (0.158)	0.0377 (0.0715)
GDP(GDP Growth Rate)	0.858 (2.995)	2.640* (1.425)	-0.125 (2.506)	-1.952 (1.477)	-0.109 (2.077)	-1.451 (1.898)	-0.991 (2.489)	0.611 (1.909)	-0.340 (1.754)	0.675 (1.269)
_cons	-3.459 (1.937)	-2.093 (0.638)	0.603 (0.922)	-1.233 (0.998)	-2.120 (1.506)	-2.402 (1.170)	1.050 (0.630)	0.532 (1.168)	-1.339 (0.560)	0.152 (0.449)
N	170	170	170	170	170	170	170	170	170	170

Standard errors in parentheses * p<0.1 ** p<0.05 *** p<0.01

Regulatory Quality: The score gathered from world governance indicator. **Religiosity:** The data gathered from the world values survey based on the percentage of respondents indicating that religion is important to them. **Listed:** Dummy variable taking a value of 1 if the bank is listed on the stock exchange of the respective country and 0 otherwise. **Bank Age:** The bank's age since its foundation. **BOD size:** Number of board members. **SSB size:** Number of shariah supervisory board members. **NED:** Percentage of non-executive directors inside the board. **Size:** Natural logarithm of total assets. **Profitability:** Natural logarithm of net income. **ROA:** Ratio of earnings before interest and tax divided by total assets. **GDP:** Growth rate of the gross domestic product of a country as a proxy for macroeconomic factors.

Table 7.17: SEGE 20 Themes (Icosagonal Themes)

Referring to table 7.17: SEGE 20 Themes (Icosagonal Themes), the importance of religion is highly significant at 1% with themes that are related to Islamic values such as zakat (Islamic levy), benevolent loan, and shariah governance framework. The thesis also found that the importance of religion is also highly significant to the guiding principles of governance. The results may suggest that religiosity plays an important role in motivating and stimulating the disclosure quality of Islamic banks. Being effective and having the majority of middle and top management personnel coming from a religious background might encourage the elevation of social reporting initiatives. This argument is in accord with Angelidis and Ibrahim (2004) findings that an individual's degree of religiousness has a significant relationship with ethical and corporate social responsiveness.

Furthermore, the individual religiousness setting depends on the area and the country's religious values and knowledge. Therefore, the employee of the Islamic banks plays an important role in determining the ethical judgement in socially responsible actions and social reporting. This is in line with the findings of Walker et al. (2012) on religiosity on the ethical decisions of employees. Moreover, Walker et al. (2012) also supports that religiosity and social outcome are achieved through the social structure of society. The thesis argues that one of the explanations for the impact of religiosity's influence on social reporting is based on the essence of the religiosity of its personnel working and managing the policy and procedure in Islamic banks and from the values of a social structure of a particular geographical area.

In addition, the same essence applies to the regulatory quality's influence on the disclosure of shariah compliance, zakat, charity and nature themes. The regulatory quality depends on the society's values that are embedded in the social structure in a particular geographical area and this difference makes the adherence to a particular set of rules become easier. In fact, in order to be socially responsible, the business needs to have a strong and stable regulatory framework (Azmat and Samaratunge, 2009) which is achieved through the willingness of the personnel to comply with the regulatory requirement.

This, however, depends on the social construct of the area where the Islamic banks operate. From the evidence in table 7.17, it may suggest that a strong regulatory quality is likely to increase the disclosure of charitable causes and natural issues in Islamic banks. This is in accordance with Toms (2002) where he argues that the disclosure in the annual report with regards to nature or environmental issues might be a device to signal the quality of the company, and, in this case, the Islamic bank.

This thesis also found that the shariah compliance themes are highly significant with shariah supervisory board size. As compared to previous studies like Mallin et al. (2014), where they found that the total corporate social responsibility index is significant with the shariah supervisory board, this thesis found no significant relationship with the total disclosure index but found a highly significant relationship within smaller and specific themes. This thesis argues that the shariah supervisory board's scope of duty only determines the shariah compliance of the Islamic bank's operation which normally has a minimum attachment to overall social responsibility operations.

The limited duty explained above is in line with any standard shariah supervisory board guidelines such as IFSB (2009), BNM Shariah Governance Framework (2010), BNM Shariah Governance Exposure (2017) and AAOIFI (2010) which touch upon the shariah supervisory role and scope. Therefore, this thesis argues and suggests that a proper and specific theme is required to obtain a more meaningful result and interpretation.

Overall, regulatory quality and religiosity are important factors that should be considered when investigating the culture in an organisation or in a particular geographical area. As culture is determined generally by **education**²², it will shape the religiosity and regulatory understanding and adherence. Education is an important role in a cultural setting for disclosure as advocated by Haniffa and Cooke (2002).

²² The current religiosity and regulatory quality in a particular area is a part of the culture that is shaped by education/knowledge that is pre-taught (**Evolution** - generation to generation / **Revolution** - fast track governmental programme).

7.3.6. Level 1, 2, 3 & Graphic Disclosure

Robust Std. Err	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Graphic</u>
Regulatory Quality	-13.05 (71.91)	-30.58 (51.17)	50.64 (34.99)	18.55 (38.53)
Religiosity	0.0172 (13.32)	15.07 (10.92)	25.75*** (6.270)	12.21* (6.998)
Listed	10.31 (8.502)	13.08* (7.521)	7.374* (3.864)	6.026 (6.088)
Bank Age	0.301* (0.178)	0.324*** (0.106)	0.432*** (0.0456)	0.359*** (0.127)
BOD Size	0.857 (0.564)	0.925 (0.591)	0.597* (0.309)	0.580 (0.397)
SSB Size	1.816*** (0.590)	1.795* (0.980)	0.569 (0.520)	1.379 (1.267)
NED	4.087 (4.233)	-7.420* (4.345)	-0.672 (2.673)	-6.278 (3.961)
Size(Ln Total Asset)	-0.508 (1.829)	-0.846 (1.717)	-1.234 (1.355)	-0.669 (1.493)
Profitability (ln Net income)	0.405 (0.302)	0.187 (0.318)	0.274*** (0.0979)	0.0683 (0.224)
ROA	-0.867 (7.893)	-19.46** (7.915)	-6.028* (3.469)	-16.05** (7.882)
GDP(GDP Growth Rate)	-87.30 (79.41)	66.74 (68.96)	-17.23 (40.38)	80.34 (80.07)
_cons	25.02 (54.88)	7.326 (40.71)	-43.59 (29.07)	-26.10 (33.61)
N	170	170	170	170
Standard errors in parentheses	* p<0.1	** p<0.05	*** p<0.01	

Regulatory Quality: The score gathered from the world governance indicator. **Religiosity:** The data gathered from the world values survey based on the percentage of respondents indicating that religion is important to them. **Listed:** Dummy variable taking a value of 1 if the bank is listed on the stock exchange of the respective country and 0 otherwise. **Bank Age:** The bank's age since its foundation. **BOD size:** Number of board members. **SSB size:** Number of shariah supervisory board members. **NED:** Percentage of non-executive directors inside the board. **Size:** Natural logarithm of the total assets. **Profitability:** Natural logarithm of the net income. **ROA:** Ratio of earnings before interest and tax divided by total assets. **GDP:** Growth rate of the gross domestic product of a country as a proxy for macroeconomic factors. **Level 1:** Disclosure at the phrases level. **Level 2:** Includes policy and graphics. **Level 3:** Disclosure at the evidence level. For a detailed procedure, please refer to Figure 4.8: 3 Level Scoring Procedure.

Table 7.18: Graphic & 3 Level Estimation

Another important finding was in table 7.18 above. Perhaps the most compelling finding is the significant association between religiosity and the level 3-type disclosure and graphic disclosure. Referring to table 7.19, religiosity is highly significant at 1% while graphic disclosure is significant at

10% with religiosity. This is an interesting finding which explains the more religious the area where the Islamic banks operate, the more likely the Islamic banks are to disclose at the evidence level, for instance in providing figures and statistics for charity and environmental efforts done in an annual report. For instance, the figure 7.1 below is taken from one of the annual reports: -

The total funds disbursed in FY2012/13 were RM4.1 million benefiting 20 charity organisations. During the year, the Foundation awarded RM3.5 million in scholarships to benefit 67 high performing school leavers, all of whom are from financially-challenged families. Because gaps of opportunity exist along the entire spectrum of education development, the Foundation has set up a comprehensive programme to empower their scholars: enrichment camps and workshops, internships, mentorships, and other supports to help them excel in their formative years at university and beyond.

Figure 7.1 : Hong Leong Islamic Bank, Annual report 2013, pg.17

On another spectrum, the thesis found that the graphical type of disclosure is also influenced by religiosity. This is also an interesting finding that is currently not found in the literature of Islamic accounting specifically and business ethics in general. One example of graphics disclosure relates to environmental efforts taken by the banks and disclosed in the annual report in figure 7.2 below: -



Figure 7.2 : Hong Leong Islamic Bank, Annual report 2013, pg.18

Overall, in this sub-section, this thesis argues that religiosity influences better disclosure and provides a rich input from graphics to evidence-based phrases. In other words, this means that the more important religion is to society, the higher the quality of the disclosure made by the Islamic banks in the annual report.

7.3.7. Unique and Universal Disclosure

Robust Std. Err	<u>UNIQUE DISCLOSURE</u>	<u>UNIVERSAL DISCLOSURE</u>
Regulatory Quality	0.822 (0.510)	0.715* (0.404)
Religiosity	0.472*** (0.122)	0.159* (0.0845)
Listed	0.0467 (0.0526)	0.126*** (0.0429)
Bank Age	0.00528** (0.00236)	0.00669*** (0.000825)
BOD Size	0.00171 (0.00669)	0.0104* (0.00573)
SSB Size	0.00519 (0.0124)	-0.00291 (0.00597)
NED	0.0335 (0.0414)	-0.0368 (0.0238)
Size(Ln Total Asset)	-0.00804 (0.0137)	-0.00201 (0.00776)
Profitability (ln Net income)	0.00326 (0.00337)	0.00101 (0.00241)
ROA	-0.109 (0.101)	-0.0334 (0.0753)
GDP(GDP Growth Rate)	0.265 (0.824)	-0.362 (0.610)
_cons	-0.525 (0.401)	-0.403 (0.326)
N	170	170
Standard errors in parentheses	* p<0.1 ** p<0.05 *** p<0.01	

Regulatory Quality: The score gathered from the world governance indicator. **Religiosity:** The data gathered from the world values survey based on the percentage of respondents indicating that religion is important to them. **Listed:** Dummy variable taking the value of 1 if the bank is listed on the stock exchange of the respective country and 0 otherwise. **Bank Age:** The bank's age since its foundation. **BOD size:** Number of board members. **SSB size:** Number of shariah supervisory board members. **NED:** Percentage of non-executive directors inside the board. **Size:** Natural logarithm of the total assets. **Profitability:** Natural logarithm of the net income. **ROA:** Ratio of earnings before interest and tax divided by total assets. **GDP:** Growth rate of the gross domestic product of a country as a proxy for macroeconomic factors. **Unique Disclosure:** Disclosure related only to Islamic banks. **Universal Disclosure:** Disclosure applied to Islamic banks and conventional banks.

Table 7.19: Unique & Universal Disclosure

Table 7.19 above illustrates a comparison of the estimation result of the unique and universal SEGE disclosure. It is apparent from table 7.19 that religiosity is highly significant to unique SEGE disclosure at 1% while it is significant at 10% in universal disclosure. On the other hand, regulatory quality is significant at 10% for universal disclosure. These findings are not counterintuitive as it is expected that religiosity may influence disclosure related to Islamic banks (unique).

The findings also found evidence that religiosity also influences universal disclosure themes even though they are not as strong as compared to the unique SEGE disclosure themes. On the other hand, the expectation that regulatory quality has a strong relationship with the universal type of disclosure turns out to be only significant at 10%. However, it suggests that regulatory quality is one important factor to be considered in disclosure research and this might relate to de Villiers and Marques (2016) findings on more information on corporate social responsibility in countries that have higher quality regulations.

However, the thesis is aware that there are others factors that are assumed *ceteris paribus* in this thesis that might also influence the disclosure, for instance if there is a particular type of law implemented in a country (Liang and Renneboog, 2017). These findings serve as a precursor to more rigorous research involving Islamic banks on their social, shariah, ethics, environmental and governance disclosure specifically and other religious-based institutions generally. Based on Haniffa and Hudaib (2007) and Mallin et al. (2014), Islamic bank disclosure on unique items became common during the early stages of Islamic banks and became less popular after the Islamic banks had grown strong, where universal disclosure themes emerged further.

Nevertheless, while Mallin et al. (2014) found financial performance to be positive and significant towards unique corporate social disclosure, this research found that religiosity is significant towards the unique themes of SEGE disclosure which are much more concentrated and focus on a religious motive. To prove which countries are likely to have an influence on religiosity, the regression analysis needs to be supported by the raw statistics produced by the world value survey (refer to Table 7.13:

Religiosity by Country, for statistics and discussion). This is because religiosity does not change over a short period. Therefore, the two countries need to be regressed as pooled data to get the result which is then compared with the religiosity of each country.

7.4. Comparison of Malaysia and Bahrain

7.4.1. Main SEGE Estimation [SEGE Disclosure Score]

SEGE DISCLOSURE (Robust Std.Err.)	Malaysia	Bahrain
Regulatory Quality	0.851** (0.412)	0.428 (0.844)
Listed	0.273*** (0.0338)	0.0465** (0.0234)
Bank Age	0.00595*** (0.00122)	0.00426*** (0.000753)
BOD Size	0.000569 (0.00634)	0.0119** (0.00495)
SSB Size	-0.00450 (0.00473)	0.00551 (0.0102)
NED	-0.0424 (0.0629)	0.0145 (0.0265)
Size(Ln Total Asset)	-0.00531 (0.00835)	0.00714 (0.0136)
Profitability (ln Net income)	0.00764 (0.00603)	0.000691 (0.00232)
ROA	-0.555 (0.895)	-0.0541 (0.0613)
GDP(GDP Growth Rate)	-0.907 (0.651)	0.0395 (1.309)
_cons	-0.190 (0.284)	-0.228 (0.689)
N	90	80
Standard errors in parentheses	* p<0.1 ** p<0.05 *** p<0.01	
SEGE : Shariah , Social , Environmental , Governance & Ethics Score		

This table displays the main model estimation. **SEGE Score**: The score derived from the quality disclosure score of the annual report. **Regulatory Quality**: The score gathered from the world governance indicator. **Religiosity**: The data gathered from the world values survey based on the percentage of respondents indicating that religion is important to them. **Listed**: Dummy variable taking a value of 1 if the bank is listed on the stock exchange of the respective country and 0 otherwise. **Bank Age**: The bank's age since its foundation. **BOD size**: Number of board members. **SSB size**: Number of shariah supervisory board members. **NED**: Percentage of non-executive directors inside the board. **Size**: Natural logarithm of total assets. **Ownership**: Percentage of ownership by the public. **Profitability**: Natural logarithm of net income. **ROA**: Ratio of earnings before interest and tax divided by total assets. **GDP**: Growth rate of the gross domestic product of a country as a proxy for macroeconomic factors. **Corruption Control**: World Governance Indicator score. Standard error is robust and adjusted for 34 clusters in ID.

Table 7.20: Main SEGE Estimation (Malaysia vs Bahrain)

This section provides an in-depth result through the segregation of the two countries of Malaysia and Bahrain. However, it is important to reiterate that, in this section, the religiosity variable has been removed from the main interest variable as compared to the pooled variable. This is because the

religiosity value and beliefs do not simply change within a short period of time but are built by the values embedded within society. Therefore, the data gathered by the world value survey caters for the 6th wave (2010-2014), which is the period of the study. Consequently, religiosity has been excluded from the main estimation for a comparison of the countries. This has been explained in the previous section and the discussion is in section 7.3.2.

Moving forward, table 7.20 in the previous page informs that, between the two countries, Malaysian Islamic banks' SEGE disclosure is much more influenced by regulatory quality, where higher quality regulations affect SEGE disclosure positively. However, Bahrain Islamic banks are not affected by regulatory quality. This result provides one of the answers to the research question on the differences of the two models of Islamic banks, where Malaysia's "top to bottom" approach may be one of the factors that contributes to this difference as compared to the "bottom to top" approach in Bahraini society (Warde, 2010).

Moving further, the bank's age and the listed status of Islamic banks is positively significant towards the main SEGE disclosure of Islamic banks in both countries, and this result conforms to the literature. Furthermore, what is more important to be discussed are the differences in the regulatory quality and differences in religiosity. This needs to be investigated further through the roots of society's values within each country. The results might be significant statistically, but the factors that may contribute to a proper implementation of the regulations and the influences of religion need to be explained further.

These factors are further elaborated in chapter 8, discussion and conclusion, where the Malaysian and Bahraini context of religious values and the implementation of regulations is discussed critically. In the next section, the seven dimensions of both countries' estimations will be presented and elaborated.

7.4.2. 7 Dimension (Malaysia Vs Bahrain)

Malaysia - 7 Dimensions	SHARIAH	SHARIAH GOVERNANCE SYSTEM	SOCIAL EXTERNAL	SOCIAL INTERNAL	ENVIRONMENT	ETHIC	GOVERNANCE
Regulatory Quality	1.471 (0.936)	1.841* (1.087)	2.682** (1.293)	-0.728 (0.941)	0.278 (0.806)	1.775 (1.391)	-0.627** (0.273)
Listed	0.323*** (0.0492)	0.234*** (0.0344)	0.445*** (0.0597)	-0.0139 (0.0549)	0.391*** (0.0202)	0.142** (0.0696)	0.189*** (0.0296)
Bank Age	0.00500*** (0.00191)	-0.00127 (0.00257)	0.00998*** (0.00180)	0.00875*** (0.00263)	0.00387*** (0.000892)	0.00772*** (0.00256)	0.00297 (0.00181)
BOD Size	-0.0127 (0.0115)	0.0282* (0.0164)	0.0156 (0.0154)	-0.00143 (0.0239)	0.00926 (0.00794)	0.0222** (0.00967)	-0.00148 (0.00620)
SSB Size	-0.00693 (0.0161)	-0.0219 (0.0234)	-0.00384 (0.0177)	-0.0174 (0.0316)	-0.00465 (0.00602)	-0.0197 (0.0187)	0.00142 (0.00826)
NED	-0.00420 (0.143)	0.182 (0.132)	-0.231 (0.185)	0.104 (0.143)	-0.0545 (0.0554)	-0.191* (0.103)	-0.0573 (0.103)
Size(Ln Total Asset)	-0.0286 (0.0255)	0.0706*** (0.0200)	0.00640 (0.0343)	-0.0545* (0.0289)	0.0158 (0.0194)	0.0395 (0.0349)	0.00756 (0.0134)
Profitability (ln Net income)	0.0102 (0.0114)	-0.00704 (0.0125)	0.00784 (0.0114)	0.00543 (0.00837)	-0.000298 (0.00755)	0.0252 (0.0212)	-0.00480 (0.00722)
ROA	-0.831 (1.944)	3.148 (1.990)	-1.014 (1.880)	-0.108 (1.938)	-0.144 (1.296)	-3.688 (2.502)	1.143 (1.114)
GDP(GDP Growth Rate)	-1.376 (1.556)	-6.367*** (1.883)	-2.700 (1.909)	-0.701 (2.785)	1.008 (0.699)	-0.169 (1.946)	0.674 (1.215)
_cons	-0.233 (0.688)	-1.120 (0.776)	-1.702* (1.007)	1.759*** (0.599)	-0.421 (0.644)	-1.732* (1.027)	0.928*** (0.192)
N	90	90	90	90	90	90	90

Standard errors in parentheses * p<0.1 ** p<0.05 *** p<0.01

Table 7.21: 7 Dimensions (Malaysia)

Bahrain- 7 Dimensions	SHARIAH						
	SHARIAH	GOVERNANCE	SOCIAL EXTERNAL	SOCIAL INTERNAL	ENVIRONMENT	ETHIC	GOVERNANCE
		SYSTEM					
Regulatory Quality	0.0593 (1.925)	1.208 (1.510)	-0.137 (2.988)	6.726 (4.120)	-0.460 (0.663)	-1.787** (0.890)	-1.517* (0.775)
Listed	0.0124 (0.0404)	-0.139*** (0.0522)	0.186*** (0.0636)	0.148 (0.130)	0.00944 (0.0142)	0.0976 (0.0642)	0.0224 (0.0346)
Bank Age	0.00606*** (0.00233)	0.00373* (0.00220)	0.00391 (0.00262)	0.0130*** (0.00485)	0.000861 (0.000819)	0.00599 (0.00370)	-0.00146 (0.00174)
BOD Size	0.0108* (0.00578)	0.00227 (0.00887)	0.0331* (0.0184)	0.00894 (0.0162)	-0.00100 (0.00330)	0.00144 (0.00769)	0.0113 (0.0112)
SSB Size	0.00378 (0.0154)	0.0308** (0.0145)	-0.00260 (0.0306)	0.0112 (0.0479)	-0.00493 (0.00452)	0.0278 (0.0236)	0.00250 (0.0152)
NED	0.0186 (0.0418)	0.0130 (0.0458)	-0.0374 (0.0758)	-0.0255 (0.124)	0.00588 (0.0125)	0.0428 (0.0655)	0.0129 (0.0457)
Size(Ln Total Asset)	0.0435 (0.0384)	-0.0600* (0.0329)	0.0527 (0.0381)	-0.124 (0.101)	0.0181 (0.0168)	-0.0620 (0.0397)	0.0746*** (0.0212)
Profitability (ln Net income)	0.00456 (0.00363)	-0.000597 (0.00450)	0.00176 (0.00682)	-0.00262 (0.00751)	-0.00523 (0.00473)	0.00477 (0.00524)	-0.00213 (0.00304)
ROA	-0.273** (0.128)	0.0713 (0.153)	-0.195 (0.189)	0.196 (0.239)	0.0783 (0.0737)	-0.0337 (0.179)	-0.00387 (0.110)
GDP(GDP Growth Rate)	0.758 (1.892)	1.201 (1.622)	-2.214 (3.715)	6.403 (5.139)	-1.191 (1.385)	-2.126 (1.335)	-1.922*** (0.684)
_cons	-0.333 (1.494)	-0.152 (1.225)	-0.284 (2.444)	-3.876 (3.542)	0.273 (0.456)	1.888** (0.775)	1.090* (0.583)
N	80	80	80	80	80	80	80

Standard errors in parentheses * p<0.1 ** p<0.05 *** p<0.01

Table 7.22: 7 Dimensions (Bahrain)

This section references tables 7.21 and 7.22 for Malaysia and Bahrain respectively. Referring to table 7.21, Malaysian Islamic banks' disclosure on specific dimensions of shariah governance is significant at 10% while social external is significant at 5%. This suggests that the higher the regulatory quality, the more the disclosure on social external and the shariah governance dimension. Since Islamic financial institutions promote social and ethical identity (Haniffa and Hudaib, 2007) and are expected to comprehensively cover social welfare and justice, as advocated by Belal et al. (2014), Malaysian Islamic banks at least address social external which is comprised of charity, community involvement and sponsorship themes. This is, however, totally different in the case of Bahrain.

In the Malaysian context of heavy support from the top levels of government (Warde, 2010), the quality regulatory may be driven by government initiatives that make the shariah governance dimension significant towards regulatory quality. If compared to the initiatives of shariah governance inventiveness by the Malaysian and Bahraini governments, Malaysia is much more advanced with the central bank taking the initiative in shariah governance in 2004, 2010, and 2017. This is very different in the Bahraini context where the only standard that can be associated with the Bahraini government's initiative is the AAOIFI accounting, auditing and governance standards which consist of seven standards that are not as comprehensive or detailed as the ones by its Malaysian counterpart.

Moving further, it is noticeable that Malaysian regulatory quality is negatively significant to governance dimension disclosure, and this might be explained by the moderate value of the culture and society in a country as, in a matured society, it is assumed that the better the regulatory quality, the less disclosure is needed on the organisation's governance. In a country such as Bahrain, where the society and the cultural values are conservative, it is not surprising that ethics and governance are negatively significant to regulatory quality. This is because in a country that is prone to conservative values, disclosure on ethics and governance are merely a tool for legitimisation. This will be further explained and discussed in section 8.2, the Malaysian and Bahraini Context. In the next section, selected disclosure themes will be explained.

7.4.3. Selected Themes (Malaysia Vs Bahrain)

<u>Country</u>	<u>Malaysia</u>			<u>Bahrain</u>		
Robust Std. Err	<u>Shariah Compliance</u>	<u>Charity</u>	<u>Nature</u>	<u>Zakat</u>	<u>Wild Life</u>	<u>Institutional Ethic</u>
Regulatory Quality	6.249** (3.184)	4.228* (2.513)	1.376* (0.753)	7.177** (3.365)	-3.573* (1.963)	-2.187* (1.322)
Listed	0.473*** (0.0414)	0.257*** (0.0640)	0.636*** (0.0368)	-0.115 (0.138)	0.0721 (0.0976)	0.0629 (0.0678)
Bank Age	-0.00432 (0.00418)	0.00436 (0.00533)	0.00545*** (0.00179)	0.00113 (0.00645)	0.0121** (0.00561)	-0.00319 (0.00331)
BOD Size	0.0274 (0.0285)	0.0232 (0.0278)	0.0172 (0.0168)	0.0127 (0.00785)	-0.00492 (0.00832)	0.0140 (0.0284)
SSB Size	0.0663* (0.0376)	0.0640* (0.0340)	-0.0296 (0.0241)	-0.0595* (0.0337)	0.0469 (0.0361)	-0.0275 (0.0331)
NED	-0.317 (0.222)	-0.484 (0.359)	-0.0686 (0.0697)	-0.0627 (0.130)	-0.0342 (0.0661)	0.0317 (0.115)
Size(Ln Total Asset)	-0.107 (0.0850)	-0.0273 (0.0920)	0.0307 (0.0291)	0.0786 (0.0597)	0.0138 (0.0517)	0.204*** (0.0447)
Profitability (ln Net income)	0.0411* (0.0249)	0.0313 (0.0233)	0.00765 (0.0187)	-0.00265 (0.00626)	0.00242 (0.0101)	-0.00677 (0.00831)
ROA	-4.411 (3.318)	-3.209 (4.301)	-1.901 (3.258)	0.0530 (0.166)	-0.190 (0.169)	-0.0378 (0.348)
GDP(GDP Growth Rate)	-7.899 (4.935)	-4.042 (4.292)	1.754 (1.703)	8.754** (3.672)	-1.950 (1.311)	-3.519* (1.841)
_cons	-3.184 (2.571)	-2.611 (1.827)	-1.376* (0.719)	-5.819** (2.636)	2.392 (1.583)	0.497 (0.950)
N	90	90	90	80	80	80
Standard errors in parentheses	* p<0.1	** p<0.05	*** p<0.01			

Regulatory Quality: The score gathered from the world governance indicator. **Listed:** Dummy variables taking a value of 1 if the bank is listed on the stock exchange of a particular country and 0 otherwise. **Bank Age:** The bank's age since its foundation. **BOD size:** Number of board members. **SSB size:** Number of shariah supervisory board members. **NED:** Percentage of non-executive directors inside the board. **Size:** Natural logarithm of total assets. **Profitability:** Natural logarithm of net income. **ROA:** Ratio of earnings before interest and tax divided by total assets. **GDP:** Growth rate of the gross domestic product of a country as a proxy for macroeconomic factors.

Table 7.23: Malaysia vs Bahrain Selected Themes

In this particular section, only selected themes will be discussed. This is because the objective of this thesis is to explore the differences in the main SEGE disclosure's association with these two models, namely the Malaysian and Bahraini Islamic bank model. However, the selected themes discussion is made to strengthen the discussion on the differences in the detailed themes that are also derived from the main dimensions. It is important to reiterate that chapter 7 serves to further support the findings in chapter 6 with more scientific evidence before going into a more subjective discussion in chapter 8.

Referring to table 7.23, Malaysian disclosure themes are positively influenced by regulatory quality. The shariah governance, charity and nature themes are significant towards regulatory quality. However, Bahrain's disclosure on wildlife and institutional ethics is negatively influenced by regulatory quality. This might explain that if the regulatory portion is managed well, the disclosure of such issues need not be a priority for a country with conservative values. Nonetheless, the regulatory quality is positive to zakat (Islamic levy on Islamic business to charity) disclosure even though Bahrain Islamic banks are not required to pay zakat. This shows that Bahrain Islamic banks adhere to the requirement.

One of the factors that may explain the Malaysian case is the strong and high influence of stakeholders such as the central bank of Malaysia that are heavily involved in the shariah governance framework. Moreover, sensitive stakeholders normally shape disclosure, for instance in environmental issues (which this thesis associates with nature themes). Huang and Kung (2010) argue that pressure can be from external and internal stakeholders that are shaped by the values of society. In the Malaysian case, well-informed and mature stakeholders play an important role in shaping SEGE disclosure not just by pressure, but, most importantly as this thesis argues, through the education and values instilled in the majority of individuals that manage the Islamic banks, central bank and others in the administration of the country. In addition, well-informed and mature stakeholders are a product of a country's values and culture (religious orientation, social construct, regulatory structure and administration). A clearer analogy will be discussed in chapter 8.

7.5. Conclusion

This chapter presents the second part of the empirical analysis in which the objective is to support the findings in chapter 6. Furthermore, it provides a statistical estimation to further strengthen the findings in chapter 6. This chapter investigates the relationship between the main interest variable (religiosity and regulatory quality) and the SEGE disclosure in Islamic banks operating in Malaysia and Bahrain. A set of statistical tests and analyses are prepared and utilised including descriptive statistics, a correlation analysis, and a regression analysis. All of these tests and analyses are undertaken in order to measure the magnitude and influence of SEGE quality disclosure towards the main interest variables (religiosity and regulatory quality) while controlling for corporate characteristics. Moreover, the findings provide valuable information that religiosity, as a part of culture, and regulatory quality, as a part of socio-politics, have implications towards social reporting.

One of the key findings in this chapter provides insight into the influence of religiosity. Therefore, the implication might be utilised by standard makers and future research to identify the sample selection and segregate the sample that have religious influence in one group to allow more narrow and accurate results and interpretations when dealing with social disclosure and other performance-based indicators. This is because a disclosure by an organisation in a certain geographical area that has no influence on religion may have different a socio-culture that influences how they disclose information.

The results reveal a highly significant relationship between regulatory quality and the importance of religious and SEGE disclosure for the whole sample of Islamic banks in the two countries as a whole. This signals that the importance of religious and regulatory quality have an influence towards Islamic bank SEGE disclosure. However, since religions do not change in a short period, the two countries need to be checked through separate statistics which have been discussed previously in 'Table 7.13: Religiosity by Country'. In summary, Malaysian Islamic banks may have a better right to be associated with a high relationship with religiosity concerning their SEGE disclosure. Furthermore, the regulatory quality is found to be significant only with Malaysia's SEGE disclosure while there is no association with Bahraini Islamic banks' SEGE disclosure.

In conclusion, the overall chapter reinforces the thesis' general argument that religiosity and regulatory quality play an important role in influencing SEGE disclosure, where the degree of the impact and implication will be determined by the values that shape the stakeholders' orientations towards disclosure. Moreover, the values of the orientation will be different between countries and geographical areas. This is what makes the differences between SEGE disclosure between the countries. In the next chapter, chapter 8, thesis discussion and conclusion, a subjective discussion to conclude the findings in chapter 6 and 7 will be undertaken.

Chapter 8

(Thesis Discussion & Conclusion)

CHAPTER 8 THESIS DISCUSSION AND CONCLUSION

8.1. Introduction

This chapter aims to provide an understanding of the findings in some parts of chapter 6 and 7, integrate it with the research aims, and respond to the research questions. This chapter is an important chapter to be understood and is crucial for recognising the reason for the distinct features of the differences in disclosure results between Malaysia and Bahrain.

Moreover, it will not just inform of the differences of disclosure between the two countries, it will also try to determine the reason for the subjective factors that influence the disclosure style of Islamic banks in Malaysia and Bahrain. In chapter 6 and chapter 7, the disclosure findings and results were presented based on the statistics gathered from the content analysis and analyses in various tabulations, graphs, figures, and robust estimations. However, in this chapter, the results discussed in chapter six and seven will be matched with the theories and other subjective matters that may explain the disclosure differences between the two countries. These include those differences between Malaysia and Bahrain between ordinary and quality disclosure and between *Performing Banks*²³ and *Non-performing banks*²⁴.

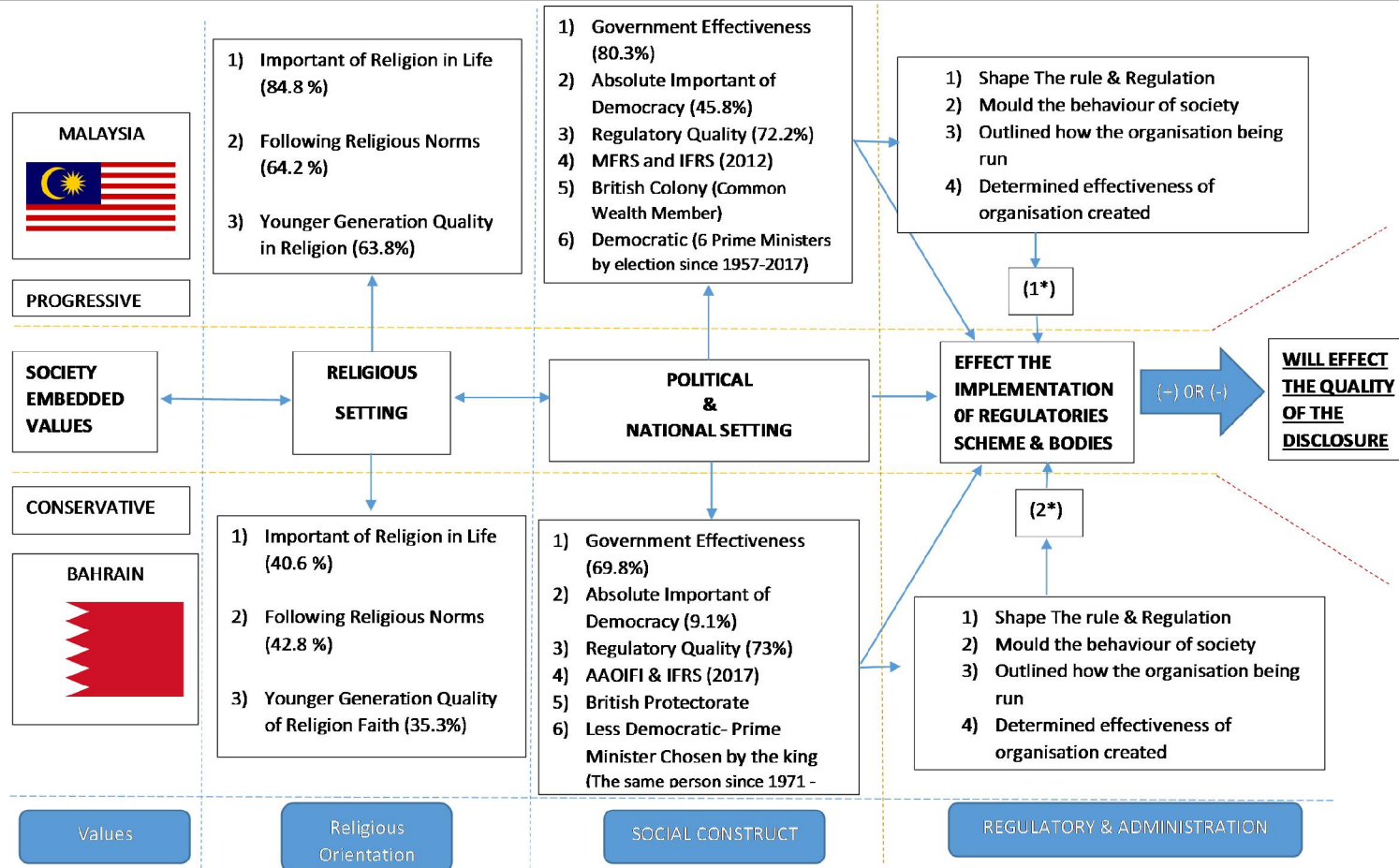
Furthermore, the overall findings, rationale and reasoning are described and summarised by the illustration in section “8.2 Malaysia and Bahrain context”. However, the illustration needs to correspond to the explanation in the other sections (section 8.3 and section 8.4) in chapter 8. The illustration displays the values of the countries’ religious orientation, social construct and regulation and administration. Moreover, the illustration portrays the differences between the two countries that may clarify the differences in disclosure pattern, commitment and quality. Subsequently, this addresses the thesis’ research aims and research questions.

²³ The Islamic banks that perform well in ordinary disclosure (index-checklist based) and also perform well in quality disclosure (3-level score-evidence based).

²⁴ The Islamic banks that perform well in ordinary disclosure (index-checklist based) BUT do not perform well in quality disclosure (3-level score-evidence based).

8.2. Malaysian VS Bahrain Context

(1*) Central Bank of Malaysia [BNM], Islamic Banking and Finance Institute [IBFIM], Security Commission [SC], International Shariah Research Academy [ISRA], Islamic Financial Service Board [IFSB]



(2*) Bahrain Central Bank, Accounting and Auditing Organization for Islamic Financial Institutions [AAOIFI], Islamic International Rating Agency[IIRA], International Islamic Financial Market[IIFM]

Figure 8.1: Malaysia & Bahrain Context (Source: Author)

The illustration in figure 8.1 (Malaysia vs Bahrain context) is an overview of the country (Malaysia & Bahrain) environment settings that may affect, and have an effect towards, social reporting as a whole. Moreover, from the understanding, practicing and implementation of social disclosure, each group, section or country has an important aspect that may have differences which lead to a difference of interpretation in what needs to be done and their willingness to commit in certain areas.

Furthermore, in the context of Malaysian and Bahraini Islamic banks, social disclosure practices and differences are closely influenced by the values of each country, that is whether they are conservative or progressive as labelled in this thesis. These values that may affect and effect the social disclosure of Islamic banks will be determined by several key factors. **First** is the country's religious orientation and doctrine, **second is** society's social norms and social constructs, and **lastly** is the regulatory and administrative effectiveness.

As Islamic banks are closely related with the religious orientation and label, the Islamic bank's action and movement will depend on the country's religious authority and norms orientation in shaping what and how the bank deals with its business administration. Moreover, the social norms and social constructs shape the people and the country authority's behaviour towards Islamic banking policies, procedures, rules and guidelines. Religious stance, perceptions towards regulations, and the way the administration functions will affect how well a stand-alone or government-linked body manages, for instance, a regulatory body and training institute for the Islamic banking industry, thus affecting and effecting Islamic bank social disclosure in the country.

In the next few sections, the discussion will elaborate more on the details of religious setting, social constructs and norms which relate closely with the history of each country.

8.2.1. Religious Direction & Orientation

Previously, in chapter 6 and 7, the findings have shown that there are distinct differences between the two countries' disclosures; therefore, it is vital to further present the investigation's reasoning on these differences. In this section, the religious orientation of each of the countries will be explained in detail to determine the possibility of affiliation between the disclosure of the countries and their religious orientation.

It is important to understand that countries' decisions, policies and actions towards any issues (disclosure) will relate closely with their history that is in turn linked closely to their societal norms. This is because under societal norms, the accountability and governance practices within it are socially and continuously constructed by the society, as mentioned by Sinclair (1995) and Yakel (2001). Therefore, the history of societal belief and religious construct may influence the disclosure in both countries.

Moreover, Rhodes (2007) and Skelcher et al. (2005) argue that the architecture of accountability and governance may be influenced by the societal belief of a group, the social norms of society and the values that the social order carries. In this thesis, Bahrain and Malaysia are certain to have different values, and one of the factors that determines the values which may shape Islamic banks in the disclosure of information of both countries is **religious orientation**.

Referring to the illustration in figure 8.1: Malaysian and Bahrain context, there is a vast difference between the religious principles that each country holds. Even though both are generally classified into the "Ahl al-Sunnah wal-Jamaah" (Sunni), there remain big differences in how they practice their religious law. These will later be reasoned and justified through the statistical indicator from the world Value Survey²⁵ (WVS) that may support and suggest that, in terms of religion orientation, there might be an effect that contributes to the differences of the disclosure practices in both countries.

²⁵ An international network of social scientists studying changes of values that impact social and political life. The study was conducted by an international team of scholars that used the most rigorous and high-quality

Furthermore, in the Malaysia strategic plan 2009-2014, the Malaysia Islamic Development Department under the Prime Minister's office reiterated their policy on the approach towards the Islamic concept and knowledge applied by the country (JAKIM, 2009). Moreover, that concept demonstrates Malaysia's consistency in the Sunni framework where they make a full disclosure on how they organise Islamic thought within the country in three clear points.

Firstly, Malaysia has made public the concept of Tauhid (Oneness of god) where they follow the Asha'ari and Maturidi school of thought²⁶ in understanding the concept of god. **Secondly**, their Fiqh (Islamic Jurisprudence) is from the Shafie school of thought²⁷ and recognises the other three schools of thought as the main schools of thought in Islamic law. **Thirdly**, is the concept of Tasawwuf (Ethics) which is following any school of thought that is 'muktabar' (prominent with a trusted chain of narration). Moreover, it is important to note, that it is made clear by Malaysia's Islamic authority that all the **three concepts** must be validated by the trusted chain of knowledge passed through authoritative scholars from the Prophet Muhammad (peace be upon him) to ensure the reliability and stability of the knowledge (JAKIM, 2009).

However, a different approach is taken by Bahrain government where there is minimal official disclosure on how the authorities (Ministry of Justice and Islamic Affairs) manage the Islamic affairs within the country on the basic issues of Oneness of god, Islamic jurisprudence and Ethics. This might relate to the minimal disclosure of organisations in the Bahraini environment. Moreover, the statistical indicator from the World Value Survey (WVS) signals and suggests the religious orientation for both Malaysia and Bahrain are different, and thus this may contribute to the differences in their SEGE disclosure.

research design for each particular country. It is utilised by policy makers and scholars publishing in top journals.

²⁶ Sciences in understanding the oneness of god that are followed and recognised by the majority of Muslims in Malaysia.

²⁷ One of the four prominent sunni schools of thought in Islamic Jurisprudence/Sciences which deduce laws from Islamic primary sources.

One important point to note is that if the nature of the countries does not provide disclosure on how the Islamic affairs are being practiced in one country, it might signal that disclosure of any matters regarding Islamic business, for instance in Islamic banks, will also be minimal. In this case, the social disclosure by Bahrain Islamic banks is lower than Malaysia. In fact, Malaysia is more transparent on how they organise their Islamic affairs in a structured manner, an example being the strategic plan of the Malaysia Islamic Development Department for the country that is revised every five years. Furthermore, the proactive and transparent steps taken by the government on religious management may affect the score provided by the World Value Survey (WVS).

Moving further, the statistics below will provide clearer differences on disclosure orientation. Furthermore, it will inform how important the society in both countries perceive religion, which may provide a suggestion and indicator on how religiosity is found to affect the quality of SEGE disclosure of Islamic banks.

World Value Survey Wave 6 (2010-2014)	Malaysia	Bahrain
Importance of Religion in Life (<i>Very Important</i>)	84.8%	40.6%
Following Religious Norms (<i>Preference</i>)	64.2%	42.8%
Importance of Younger Generation's Quality in Religion (<i>Mentioned</i>)	63.8%	35.3%

Table 8.1 : Religiosity Indicator for Malaysia & Bahrain

Referring to table 8.1, it is obvious that Malaysian society perceives religion to be an important factor in life as compared to Bahrain. This may signal that Malaysian society, even though labelled as progressive and liberal in financial product innovation (Mohd. Yusof and Bahlous, 2013), nevertheless has religion play an important role in society. Furthermore, in examining the score for '*following religious norms*' and the '*importance of younger generation's quality in religion*', Malaysia is well above 50% at 64.2% and 63.8%. However, Bahrain scored below 50% with each of these criteria at 42.8% and 35.3%. This may support the findings that religiosity might significantly affect and effect disclosure quality. However, it is important to note that disclosure performance may also be related

to the capabilities of the countries as well as their infrastructure. The differences between the two countries may also be due to a lack of capability and infrastructure in one of the countries.

This thesis reiterates, from the results previously gathered in the analysis chapter 6 and from the whole sample, that it is clear religion is highly significantly linked with the disclosure of Islamic banks. On the other hand, it may suggest that, between Malaysia and Bahrain, Malaysia is more likely to have better quality disclosure since the score for its importance of religion from the world value survey wave 6 (2010-2014) is 84.8 percent while Bahrain is only at 40.6 percent (WVS, 2015).

It is important to recall several results from the investigation and analysis to support the argument above. **First**, in the result for the quality disclosure between Malaysia and Bahrain, Malaysia is consistently above Bahrain and increases yearly as compared to Bahrain's fluctuating trend. **Second**, in ordinary disclosure, Malaysia consistently increases every year. However, they started slightly below Bahrain in 2010 but have superseded Bahrain in later years. This shows how consistent Malaysia is in its disclosure in both ordinary and quality disclosure. **Third**, Malaysian Islamic banks are much more consistent in disclosure where previously in chapter 6 section 6.4.4, in discussing the movement of the top 10 Islamic banks, the top three Islamic banks were consistent in their ranking in ordinary and quality disclosure while for Bahrain Islamic banks all banks moved with a significant gap from ordinary to quality disclosure.

Overall, the religious orientation differences between these countries has made it clear why Malaysia is moderate and Bahrain is conservative in terms of religious values. This orientation may have an influence on the social disclosure of Islamic banks that operate in Malaysia and Bahrain as the foundation of Islamic banks is greatly influenced by the religious approach of a country.

The next important issue to understand in the national context of Malaysia and Bahrain that may influence its Islamic banking social reporting is the social construct of society. This is explained in the next sub-section.

8.2.2. Political and Governance Setting

The political and governance structure in the countries may influence and explain some of the disclosure differences between the two countries.

Moreover, the thesis refers to statistics by the World Governance Indicator (WGI) provided by the World Bank Group, World Values survey (WVS) and Transparency International as a supportive statistic parallel to the prior findings in order to help interpret the differences in the disclosure. These statistics also support the thesis' statistical findings in chapter 6 and 7 while being backed by the '*subjective materials (pictures & specific phrases) and arguments from the annual report*' as discussed in the previous page.

<i>Indicator</i>	<i>Values</i>	<i>Malaysia</i>	<i>Bahrain</i>
Government Effectiveness (WGI) Average 5 Years (2010-2014)	<i>Effectiveness</i>	80.3%	69.8%
Absolute Important of Democracy (WVS) Wave 6 (2010-2014)	<i>Democracy</i>	45.8%	9.1%
Regulatory Quality (WGI) Average 5 Years (2010-2014)	<i>Quality</i>	72.2%	73%
Corruption Perception Index Transparency International Average 5 Years (2010-2014)	<i>Corruption</i>	47.6	49.6

Table 8.2: Social Construct and Socio-Politic Environment Indicator Guidance

Referring to table 8.2, in terms of the effectiveness of the government and democratic values, Malaysia is ahead compared to Bahrain. Meanwhile, regulatory quality and corruption indicators are at about the same value for both countries. Furthermore, government effectiveness and the level of democracy of a country depends on the societal values embedded within the majority group in the society (Sidney, 1988). Therefore, the better disclosure practiced by Malaysian Islamic banks as compared to Bahrain may be the result of the democracy level of the country. This is because the working culture usually mirrors the national values of a country (Hofstede, 2010, Hofstede, 1994, Hofstede, 2003, Hofstede, 1983). Even though the interaction of other environmental factors such as education and race also influence disclosure, as advocated by Haniffa and Cooke (2002), these two

factors also may be influenced by the work culture of a national and majority group in a particular geographical area (Hofstede, 2006, Sidney, 1988).

In the next section, the organisational and regulatory administration elements will be discussed.

8.2.3. Organisational & Regulatory Differences

Having understood the religious orientation and social construct of the two countries in the previous sections, it is therefore important to understand the organisation and regulatory factors that may influence the disclosure of Islamic banks.

Furthermore, the thesis classifies four key groups related to organisational and regulatory quality to identify the differences between Malaysian and Bahraini organisations and regulatory characteristics. Moreover, the four key groups explain the organisation that directly or indirectly influences Islamic bank operations and their disclosure. The four key groups are explained in the next paragraphs.

The first key group is *'Central Bank and the Standard Bodies'*, the second key group is *'Government Initiatives and Strong Legislative Body'*, the third key group is *'Market and Client'*, and the fourth key group is *'Training and Education'*. All four key groups play an important role in shaping the social disclosure of the Islamic banks operating in each country. The differences of the outcomes of disclosure by Islamic banks will be based on the efficiency of each organisation in each group and this efficiency depends on the 'social construct and political nature' of the country and the 'religious orientation' of the nation which will determine the values of the country as a whole are moderate or conservative.

As the thesis is investigating the differences in the quality of disclosure between Malaysian and Bahraini Islamic banks, the four key groups describe the information of both countries for comparison purposes. Referring to key group one (**central bank and standard bodies**), Bahrain supersedes Malaysia with the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as a body setting the standard for Islamic banks in accounting issues. Meanwhile, Malaysia follows the

Malaysia Financial Reporting Standard (MFRS) and International Financial Reporting Standard (IFRS) as bases for financial reporting. However, even though the AAOIFI has a sub-section on corporate social responsibility, which is section 7 under the governance standard section, Malaysia is far better in overall disclosure score and has many important themes such as '**nature, wild life & recycle**' and '**human resource & capital management & reward and benefits**' that relate to employees (which are one of the key stakeholders).

Furthermore, in the accounting approach, Malaysia has taken the concept of adopting what is acceptable and changing what is conflicting with Islamic values. Meanwhile, Bahrain has engaged with the concept of establishing the accounting concept from the beginning. Lewis (2001) previously described this concept on the two approaches towards Islamic society developing accounting theory. However, this thesis argues that, even though the (AAOIFI, 2010) was developed by reference to conventional accounting, it has in essence tried to signal that Islamic Financial institutions should follow standards that are produced by Muslim authorities. On the other hand, the Malaysian government finds no harm in adopting the standards from IFRS and changing things that are vital to change without renaming any standard with a more Islamic name. In other words, they avoid reinventing the wheel. Moreover, the base of the Malaysian argument on this would be the same with the matter of halal and kosher food. That is to say, even though halal food and kosher food have similarities, for instance in the use of a sharp knife and the blessing being said during the slaughter process (Regenstein et al., 2003), the term sharp knife should not be changed to "Islamic sharp knife".

Moving further, under key group one, the central bank of Malaysia plays an important role in the development and support of the Islamic banking industry in Malaysia through many initiatives. For instance, the central bank has issued the 'Guideline on Shariah Governance Framework for Islamic Financial Institutions' updated on 29 October 2017 and previously the 'Shariah Governance Framework for Islamic Financial Institutions' on 26 October 2010. These guidelines trace their origin to the 'Guideline on the Governance of Shariah Committee for the Islamic Financial Institution'

released in 2004. The robust initiatives from the central bank of Malaysia show that the important stakeholders play a tremendous role in supporting the Islamic financial institutions in Malaysia, which influences social disclosure by Islamic banks in Malaysia. However, for Bahrain, less has been done for the development of the Islamic banking industry. Moreover, this signals that the stakeholders in Malaysia are much more sensitive towards Islamic banking issues. This, in part, explains why Malaysian disclosure on shariah governance is higher than Bahrain.

The central bank is one of the influential stakeholders for Islamic banks. Therefore, if the more strategic stakeholders take an active part, it can be an indication that the less important stakeholders are also sensitive towards the development of Islamic banks in Malaysia. For instance, as members of society are the ones who fill positions (employees) in the central bank, Islamic banks and other institutions that relate to Islamic banks can put social pressure on industry practices including social reporting. Therefore, the stakeholders play an important role towards SEGE disclosure provided that the stakeholders are sensitive and influential in a particular situation.

Moving further to **key group two**, under '**Government Initiative and Strong Legislative Body**', it is clearly shown that Malaysia is ahead with their initiative of legislation through government intervention in passing the Islamic Banking Act 1983, Takaful Act 1984 and the latest Islamic Financial Services Act 2013. However, this is in contrast to the Bahraini government where there is no single act specific to Islamic banking and all the rules and regulations are written in 'Rule Book 2' governed by the central bank of Bahrain. This signals that Bahrain's organisational and regulatory foundation and development is weak and this may explain why Bahrain's social disclosure is not consistent and lower than Malaysia.

Furthermore, it is an interesting fact that Malaysia and Bahrain are the two countries that are most populated with Islamic banks and other organisations that support the development of Islamic banks. However, there are distinct differences between these two countries' models of Islamic banking. In

terms of organisational and regulatory bodies, the approach of the people that manage the organisation will determine its efficiency.

For key group three, the **'Market and Client'**, it is important to recognise that Islamic banks can survive only when there is a business client and a market to trade. Thus, the establishment of a market is essential in order for a client to do any business transactions. In comparing these two countries, Malaysia is more proactive in creating a market for Islamic banks to comfortably operate in, even though there are critics on Malaysia's approaches to Islamic banking (Warde, 2010). However, as time passes, Malaysia has developed and matured in its operation and become recognised for its model of Islamic banking (Mohd. Yusof and Bahlous, 2013). Malaysia is the first country to set up an Islamic capital market, the Islamic interbank money market for Islamic banks to trade between themselves, and it is well known for having the largest sukuk (Islamic bond) issuance. On the other hand, Bahrain's disclosure of its Islamic capital market and money market has been minimal with the latest information being in the World Islamic Fund and Financial market Conference (2014). Overall, for key group three, it is important to note that the advancement of Malaysia in its market and client quadrant has helped clients, who are important stakeholders, to influence and shape the information that may be included in the annual report. With such a huge number of customers, as stakeholders range from individual customers to business entities, the social contract between stakeholders (customers) can be strong according to social and religious values. Thus, this may explain the high proportion of disclosure in Malaysian Islamic banks as compared to Bahrain.

The last and one of the most important organisational groups is in key group four, **'education and training'**. Institutions which provide this help to supply a work force and provide professional training to the Islamic banking and finance industry. Looking at a comparison of Malaysia and Bahrain, it is clear that Malaysia has put more resources into establishing training and educational institutes across Malaysia.

Apart from the majority of universities in Malaysia offering Islamic banking and finance courses (from the undergraduate to postgraduate level), the central bank has also taken an initiative at the international level by establishing the International Centre for Education in Islamic Finance (INCEIF) in 2005. INCEIF is a university under the Malaysian central bank that attracts renowned international professionals from all over the world to work under one roof.

Other than university involvement, the research arm established by the central bank for shariah research and publication is the International Shariah Research Academy (ISRA) in 2008. Meanwhile, for professional training for bankers working in the Islamic banking industry, the Islamic Banking & Finance Institute (IBFIM) was created in 2001 under the initiative of the central bank of Malaysia.

On the other hand, the Bahrain central bank became a patron of the General Council for Islamic Banks & Financial Institutions (CIBAFI) in 2001. Under CIBAFI, the education and research wing of Islamic finance and banking are utilised at the same time, supporting regulatory soundness. This is distinct from Malaysia that decentralises the functions of organisations for each purpose of education and research as Bahrain instead centralises the functions under one organisation. Overall, for education and training institutions, Malaysia shows a high commitment towards providing a platform to support the needs of the Islamic banking industry in Malaysia while Bahrain has not really been active in establishing a good training and education facility for the Islamic banking and finance industry in Bahrain. In having such a comprehensive coverage for education and training institutions in Malaysia, it is not surprising that Malaysia's disclosure and transparency in its Social, Shariah, Environment, Governance & Ethic (SEGE) disclosure is better than Bahrain.

Based on the above consideration and given the organisational and regulatory setting of Malaysia and Bahrain, the important relationship between the differences of environment that the Islamic banks operate in and the atmosphere of the organisational and regulatory body in a country or system make a difference in how Islamic banks are organised and react, for instance, in their social disclosure.

Overall, in the previous three sub-sections (8.2.1. Religious Direction & Orientation, 8.2.2. Political & Governance setting, and 8.2.3. Organisational & Regulatory Differences), the thesis discussed the importance of the religious orientation of a country in contributing to differences in its disclosure style. Furthermore, the thesis also discussed how the social construct shaped the disclosure information. Lastly, the thesis argued that the organisational and regulatory body and initiatives in a country make the overall Social, Shariah, Environment, Governance & Ethics (SEGE) disclosure better and more mature. Having discussed all the details in both countries, it can be concluded that Malaysian national values which are progressive with a modest religious orientation and social construct have made Malaysian Islamic banking disclosure improve annually from 2010 to 2014 and surpass Bahrain Islamic banks' (SEGE) disclosure.

8.3. Influential and Non-Influential Stakeholders in Malaysia and Bahrain

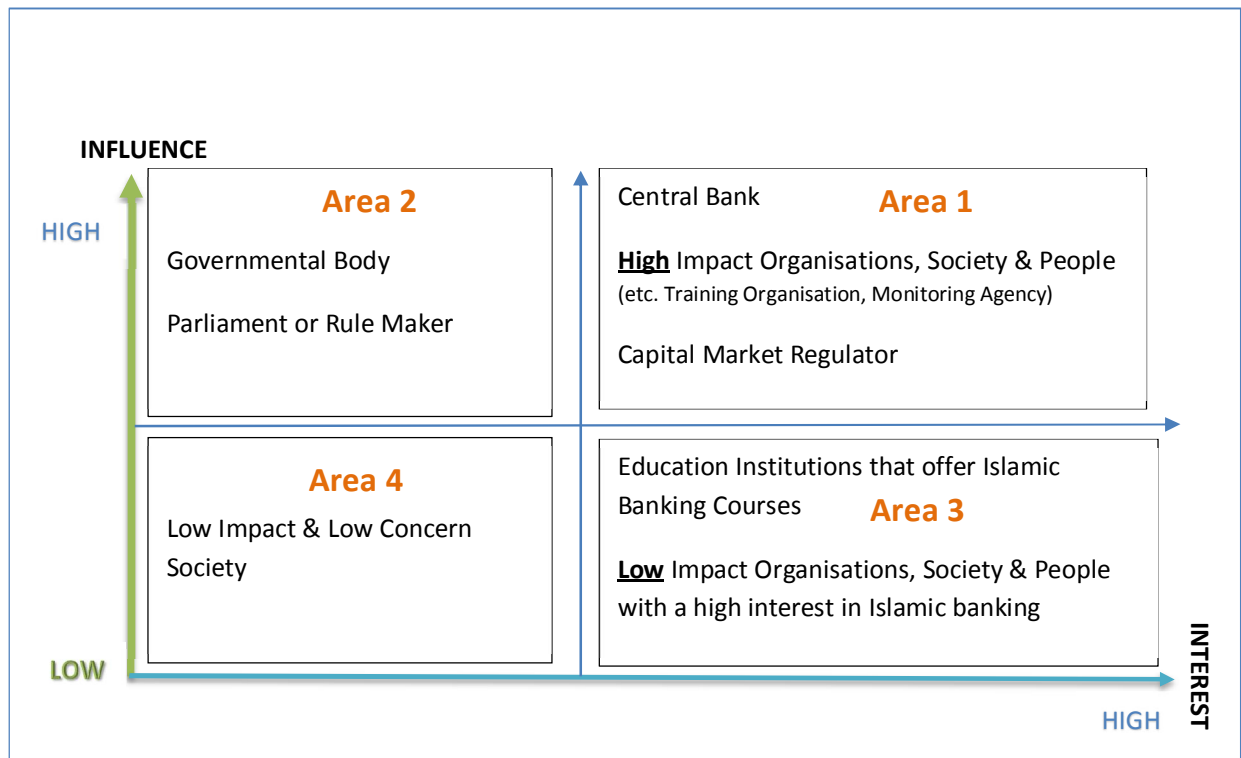


Figure 8.2: Adapted and Reconstructed from Mendelow, A. (1986). "Stakeholder Mapping"

In this sub-section, the influential and non-influential stakeholders will be critically discussed in the context of Malaysia and Bahrain. The figure above is the framework modified to suit the discussion from the general perspective in the Islamic banking industry. Nevertheless, given the complexity of the nature of disclosure that involves the organisation-society relationship (Sarah W and Carol A, 2013), and taking into consideration that the social system in both countries are different, the country-specific stakeholders need to be discussed in detail while taking the country into account.

In general, in the banking sector, the central bank and financial regulator play an important role and are influential and important stakeholders to Islamic banks, thus making them fall into 'Area 1'. In this regard, Malaysia's central bank (BNM) and the Security Commission of Malaysia play an important role in shaping the Islamic banking industry in Malaysia. This has been proven and discussed in the organisational setting in the last section where the Malaysian central bank, for instance, initiated the

Shariah governance framework for the Islamic banking sector, anchoring the Shariah research arm (ISRA) and creating the Islamic finance education centre (INCEIF). All of these provide evidence of how influential the central bank of Malaysia is as a stakeholder in the development of the Islamic banking industry and its high interest in developing the industry.

However, even though the Bahrain central bank is an important figure in the banking and Islamic banking sector in Bahrain, there is not much proof to indicate that the Bahrain central bank has a high interest in the Islamic banking industry as not many initiatives have been launched. In other words, the “high in interest & high in influence” stakeholder in Malaysia is strong in that it affects and effects Islamic banking in general and SEGE disclosure specifically. However, in Bahrain, the supposed “high in interest & high in influence” stakeholder is not as strong in Malaysia and the enthusiasm towards the Islamic banking industry is not as high as in Malaysia. Again, this relates to the social and societal setting in the specific country. Based on the findings in chapter 6 and 7, stakeholder theory may explain the disclosure in Malaysia where Islamic banks in Malaysia signal more responsible conduct themes in their annual reports to wider stakeholders in general. This may suggest that the influential stakeholders in Malaysia are more diligent and active compared to Bahrain.

Moreover, for a country like Bahrain, the king may be the most influential stakeholder for Islamic banks that operate in Bahrain. This thesis projects that the king as a “highly influential” figure in the country can determine and shape the disclosure framework of Islamic banks in Bahrain. Namely, since the king plays a politically important role in the country (as discussed in the Social Construct & Political Stand section), the king’s order and suggestions have the full potential to be followed. Likewise, if the king plays his role in social reporting or has a passion for social responsibility issues, the majority of the organisations in the country will follow its stream of awareness. However, based on the findings in chapter 6 and 7, it seems that the disclosure by Bahraini Islamic banks may be just to signals and fulfil legitimacy from authority. This may suggest that the stakeholders in Bahrain are not sensitive towards disclosure.

Overall, for 'Area 1', the influential stakeholders in Malaysia are much more sensitive towards the Islamic banking industry and this has led to better social reporting. Meanwhile, Bahrain's influential stakeholders in 'Area 1' are not very sensitive towards Islamic banking social reporting initiatives.

Interestingly, in "Area 2" the government linked bodies like the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) play an important role in shaping the social reporting in Bahrain with the requirement of having a section on social responsibility in the annual report. However, the majority of Islamic banks in Bahrain only have a section on social responsibility without comprehensive information and with the majority only achieving **level 1 disclosure (phrases)**. Even though AAOIFI is an influential stakeholder to Islamic banks in Bahrain, the disclosure seems to only minimally satisfy the legitimacy from AAOIFI, as advocated by Belal et al. (2014), since the information in the disclosure is only at the phrases level.

This is different to Malaysia as there is no specific organisation that requires any specific requirement for social responsibility. Nevertheless, the social responsibility disclosure by Malaysian Islamic banks is at a higher degree as compared to Bahrain with these banks achieving **level 3 disclosure (statistical evidence)** (see chapter 6). The disclosure with more statistical evidence signals that the Islamic banks in Malaysia disclose information to broader stakeholders using a wider stakeholder approach and portray accountability towards stakeholders.

Moving further into 'Area 3' stakeholders, it is important to note that educational bodies offer courses when there is demand from society and/or there are initiatives by the government. In the Malaysian case, the demand from the society and government initiatives have driven the offering of Islamic finance and banking courses throughout the nation, thus filling the employment lacuna. This is because Islamic banking is one of programmes in the New Economic Plan (NEP) in Malaysia that involves education, operations and legislation for the Islamic banking agenda (Warde, 2010). Malaysian higher learning institutions can be classified into low influence but high interest stakeholders. As one of the stakeholder groups, the findings show that support of educational

institutions is a type of disclosure that Islamic banks in Malaysia report in the annual report, such as with the student programmes they have sponsored (e.g. seminars) and the internships they have provided to students. This may suggest that Islamic banks in Malaysia signal their responsibility and care towards educational institutions and consider them to be an important stakeholder group.

However, Bahrain educational initiatives mostly come from a government-linked body. For instance, in the Bahrain Institute of Banking and Finance (BIBF), most degrees come from a joint programme with British universities and the state-owned university, the University of Bahrain (UOB). The importance of educational institutions in the role of social reporting is that, as high interest stakeholders, academia plays an important role in educating and advocating for the importance of sustainability, ethical principles, and social and environmental issues for a better society (Adams, 2017). This has been proven in western society with the main advocates for sustainability, social and environmental issues coming mainly from the realm of academia. Therefore, by having a mature educational organisation as a stakeholder, it may influence and promote a sound social reporting environment. Malaysia's higher performance in social reporting by Islamic banks compared to Bahrain might signal that its educational system for Islamic finance and banking is beginning to mature.

Lastly, is the 'Area 4' stakeholder that has neither high influence nor high interest. It may seem that 'Area 4' has no potential in affecting stakeholder principle. However, in reality, such as in the case of Malaysia, it has. For instance, the Non-Muslim community, mainly Chinese in theory, would not usually have interest in Islamic finance and banking issues. However, they have become interested in Islamic pawn shops because of the fairer system that do not oppress pledgees, the non-compound interest, and its cheapness compared to conventional pawn shops (Ghafar Ismail and Zakiah Ahmad, 1997). The communication that advocates for a better system of Islamic pawnshops can be clearly seen in the annual report disclosure in Bank Rakyat Malaysia Limited's (B-Rakyat) 2016 annual report, page 16 where the bank discloses its receipt of the respected industry-led award given by the Global Islamic Finance Awards for "The Best Pawnbroking Services 2016". This type of disclosure is important to

discuss as, obviously, 'Area 4' stakeholders in Malaysia have benefited from the services and the information disclosed accordingly. However, in contrast with Bahrain, 'Area 4' stakeholders there currently have no motivation to increase their interest in Islamic banking as currently there are no pure innovations in Islamic finance products that really make a difference like in Islamic pawn broking in Malaysia.

In conclusion, the influential and non-influential stakeholders section provides an understanding on the importance of the sensitivity of stakeholders in each area, which may influence the social disclosure. As discussed previously, even though 'Area 1' is the most influential and has high interest stakeholders in principle, it nevertheless depends on the sensitivity of the organisation or body to act and react in favour of the Islamic banking industry or vice versa. Furthermore, the **sensitivity**²⁸ of all stakeholders may influence the level and quality of the disclosure of Islamic banks in each country.

The type and example of the sensitivity of stakeholders or society (organisational or individual) and their response (positive or negative) has been discussed previously in chapter 3 theoretical foundations in the disclosure framework where these kinds of stakeholder may signal positive and/or negative feedback towards Islamic banks in the form of complaint, response and critique. These responses (positive/negative information) will later be processed by the internal stakeholders, which are the frontline of the Islamic banks, and be passed on to the higher management to be processed and taken into consideration. The above discussion in this section fulfils the research objectives and answers the research question on **why** there is a difference between the two countries in disclosure, where the type (influence/sensitivity) of stakeholders in both countries influence Islamic bank disclosure.

²⁸ The degree of the stakeholder's concerned/care/attention towards Islamic banks specific disclosure, action and management in general.

The next section will discuss how the level of quality and ordinary disclosure predicts the spectrum of stakeholders and legitimacy in theory for the two countries based on quality and ordinary disclosure while taking into consideration the role of accountability and social norms theory.

8.4. Stakeholder and Legitimacy Theory Spectrum Mapping within Accountability and Social Norms Theory Parameter for Malaysia and Bahrain Islamic banks

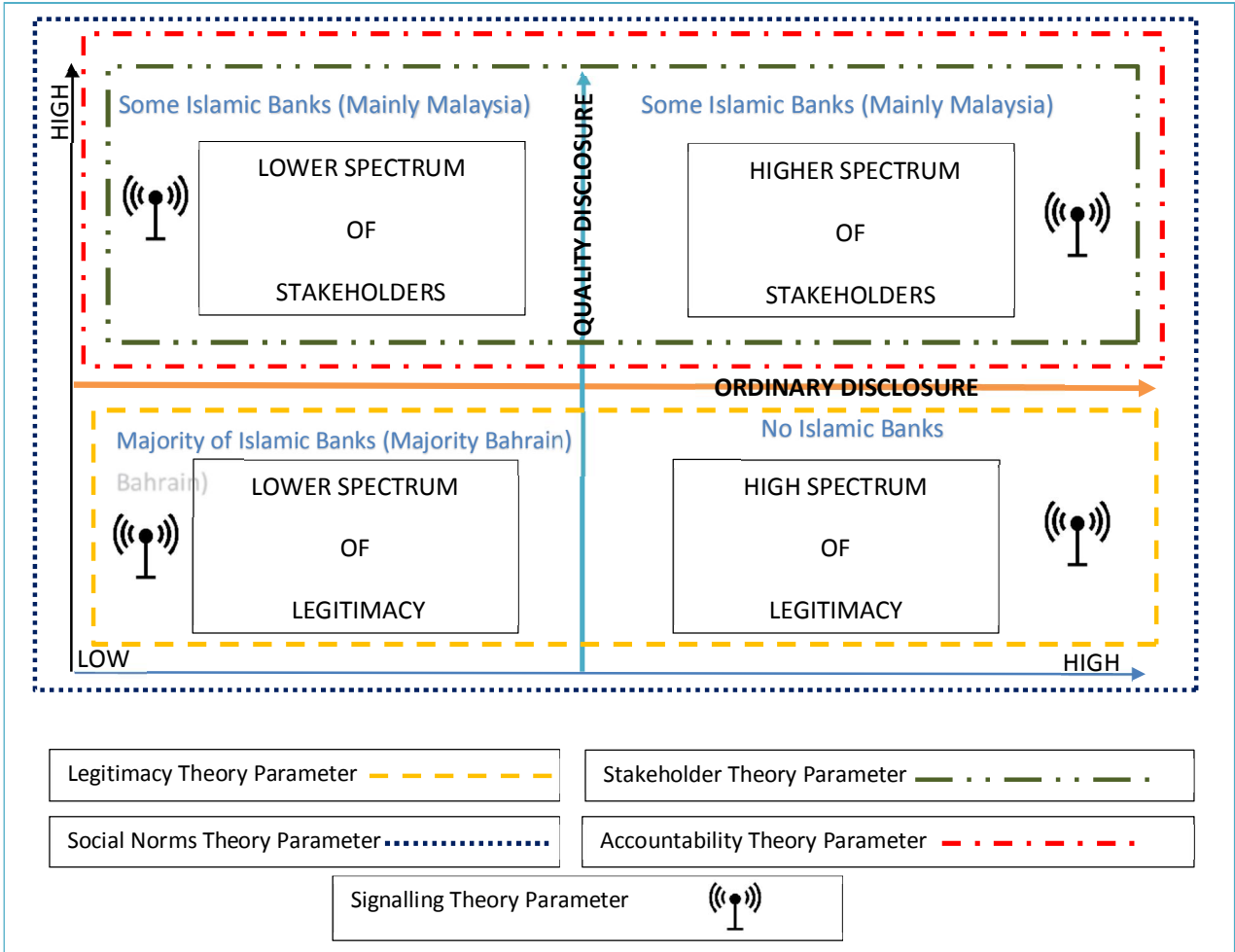


Figure 8.3: Mapping the Stakeholder and Legitimacy Spectrum within the Parameter of Accountability and Social Norms

The objective of this section is to reiterate the differences between the two models of Islamic banking in Malaysia and Bahrain through the lenses of stakeholder and legitimacy theory while at the same time considering the factors that may involve the accountability and social norms theory parameter. Based on the findings, a majority of the Islamic banks fall under the lower spectrum of legitimacy as

the quality and ordinary disclosure is low. The reason for this might be due to two circumstances: first, the Islamic banks do not care and choose to not be responsible to wider stakeholders, and, second, the Islamic banks already enjoy legitimacy from the regulator while the social contract environment they operate in does not provide enough pressure (Deegan and Unerman, 2011, Deegan et al., 2002). Moreover, in terms of legitimacy, the Islamic banks only provide basic information in the annual report which only satisfies the minimal requirement for signalling legitimacy. Whether the stakeholders read the annual report or not is of no concern since the information has been signalled in the annual report. On another argument, it is assumed that if the ordinary disclosure (index) is higher but the quality disclosure (three level score-evidence based) is lower, the banks may perform false signalling to its stakeholders.

In contrast, only some Islamic banks fall under **'high spectrum of stakeholder'** with only one Islamic bank from Bahrain being under this stage. The Islamic banks in this cluster can be grouped as having the highest responses to stakeholders. They are linked to the ethical branch of stakeholder theory and are accountable to a wider society. This is because their disclosure responds to a majority of the themes and dimensions according to stakeholder expectations, as advocated by Huang and Kung (2010), while disclosing at the *evidence-based*²⁹ level in the annual report. Disclosure from Islamic banks in this group may signal their commitment and accountability towards wider stakeholders and this can be explained by stakeholder theory.

Furthermore, since the majority of Islamic banks under this cluster are from Malaysia, this thesis would like to reiterate that the differences of the two countries might also be explained by the social norms, particularly in both countries. This is because the society that forms the stakeholders in a particular environment is nurtured by the values that are rooted in the society such as in their work norms, norms of cooperation and norms of reciprocity (Elster, 2000). In this case, the working norms and

²⁹ Statistical evidence of the related themes of disclosure in the annual report. E.g., "1500 USD has been donated to environmental causes in 2014".

moral norms of Malaysia in disclosing information might affect the disclosure in the Islamic banks' annual reports.

Moving further, the majority of Islamic banks in Bahrain fall under the '**lower spectrum of legitimacy**' cluster in their role in disclosing information because, for Bahrain, the king is the sole source of power and legitimacy. It is also noted that Islamic banks in Bahrain also satisfy legitimacy from AAOIFI with the requirement of the social responsibility section under governance standard number 7, where the majority of Islamic banks in Bahrain only provide *level 1*³⁰ disclosure as discussed in the findings chapter. Moreover, the king of Bahrain does not play a significant role in social, sustainability, ethical and environmental initiatives, and Islamic banks in Bahrain do not take these kinds of disclosure dimensions and themes seriously in the annual report.

On the other hand, the number of Islamic banks in Malaysia under the high spectrum of stakeholders is higher than Bahrain. This information denotes that, in Malaysia, there are Islamic banks that take stakeholders seriously and embrace the value of accountability to stakeholders. Furthermore, to be on this position takes a combination of complex and mature organisational and societal awareness to commit to high quality and high ordinary disclosure. The high density towards the wider stakeholder-type disclosure may signal that the Islamic banks that operate in a country with progressive values and religious-orientation tend to address SEGE disclosure better in their annual report (Walker et al., 2012, Brammer et al., 2007).

Furthermore, Malaysian Islamic banks are more responsive and sensitive towards stakeholder affairs by performing well in their SEGE disclosure as compared to Islamic banks that operate in Bahrain. The findings are in line with Hassan and Harahap (2010) where only Islamic bank in Malaysia perform above average in corporate social disclosure, leaving others, including Islamic banks from Bahrain, behind score. Moreover, based on this it can be concluded that Malaysian Islamic banks' disclosure is

³⁰ Phrases level disclosure of related themes in the annual report. E.g., "The bank is committed to environmental efforts by having a bank-level recycling centre in each branch to gather recyclable material from office use".

more useful to a broader stakeholder as advocated by Belal et al. (2014) in what is known as the “wider stakeholder approach” suggested by scholars in Islamic finance.

Overall, in general, the majority of Islamic banks need to work on their SEGE³¹ disclosure. However, the Islamic banks that perform well in SEGE disclosure are normally located in countries that are more progressive in terms of regulations, values and religious orientation. This can be seen in Malaysia, where the external and internal stakeholders (society) are much more mature in nature. This is because majority of the Malaysian Islamic banks fall under the high spectrum and lower spectrum of the stakeholder’s cluster, which at least signals its accountability of information in disclosure towards stakeholders.

However, for Bahrain, it seems that the majority of Islamic banks signal their legitimacy information in the annual report at a minimal level. This may be explained by the conservative social norms values embedded in their society (internal and external stakeholders) related to their religious orientations and organisational culture that make Islamic banks comfortable with the status quo of their operations and reputation.

In the later sections (8.5. Basic Differences between Malaysia & Bahrain and 8.6. Country’s Direction in Disclosure), the thesis tries to prove and support the differences between the two countries’ SEGE disclosures by providing a bird’s eye view of the overall disclosure. This weaves the previous discussion and argument together with regard to the variances of the disclosure and the country’s social settings.

³¹ SEGE refers to Shariah, Social, Environmental, Governance, and Ethics which are the 7 main dimensions for disclosure which consist of 20 themes (Shariah Compliance on Banking Transaction, Shariah Awareness, Zakat, Benevolent Loan/Qard Hassan, Islamic Commitment, Community Involvement, Charity, Sponsorship, Human Resources and Capital Reward and Benefit, Nature, Wild Life, Recycling, Institutional Ethics, Business Ethics, Shariah Governance Framework, Shariah Supervisory Board, Board of Directors, Top Management, Guiding Principles of Governance)

8.5. Basic Differences between Malaysia & Bahrain

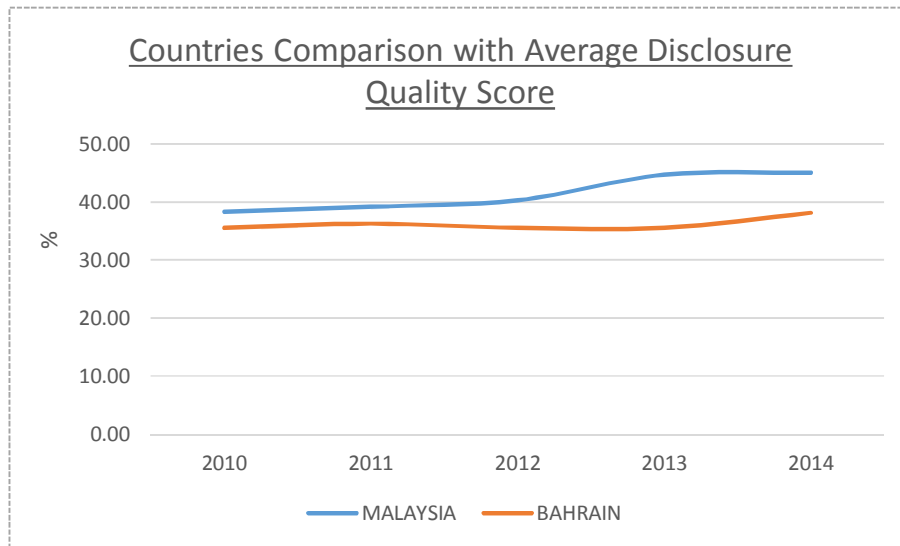


Figure 8.4: Malaysia & Bahrain Movement in Social Disclosure

Figure 8.4 above is a bird's eye view and serves as a summary of all the disclosure score comparisons between Bahrain and Malaysia from 2010 until 2014 and the details of the discussion on the findings and results discussed in chapter 6. The objective is to show the plain differences of the country's commitment to disclosure where Malaysia is always above Bahrain. Furthermore and importantly, the gap or lacuna between Malaysia and Bahrain is comparably huge from 2012 to 2014.

As discussed in chapter 6, Malaysia is always above Bahrain and the reason has been discussed in detail previously in section "8.2 Malaysia vs Bahrain Context". However, it is important to reiterate that the differences in religious orientation, social construct, and organisational and regulatory behaviour has led to the above differences. The figure above also may explain the sensitivity of stakeholders in Malaysia and the less sensitive nature of stakeholders in Bahrain as discussed before in section "8.3. Sensitive and Insensitive stakeholders in Malaysia and Bahrain". Even though Malaysia and Bahrain are the two leading countries in the Islamic banking industry in the world, their disclosure differences are obviously distinct to each other because of the complexity of the countries' characteristics. The next section will disclose the countries' orientations in the disclosure themes.

8.6. Country Direction in Disclosure

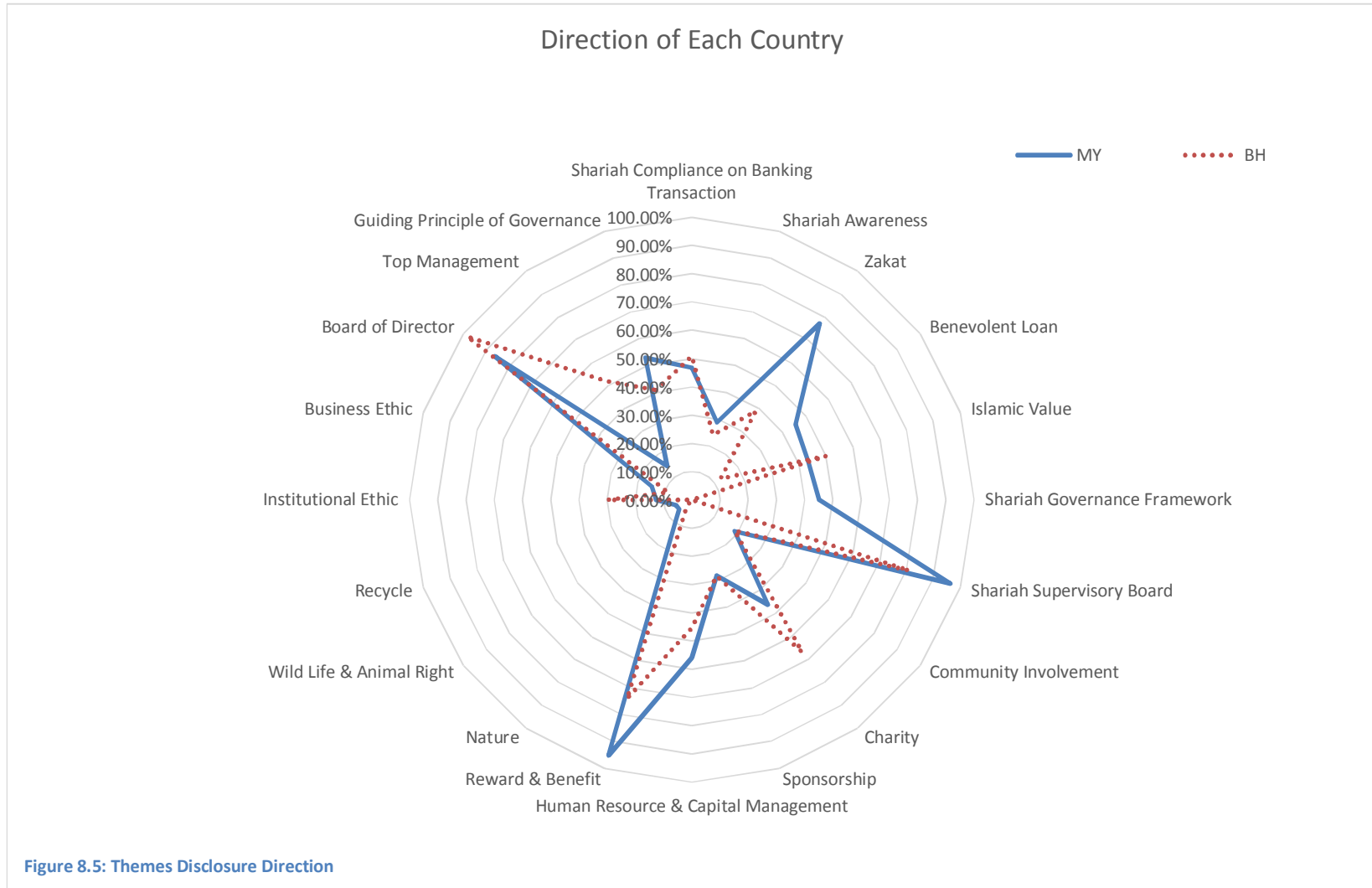


Figure 8.5 provides a summary of the themes' differences and directions weighted to each country.

There are several key points that are important to discuss from several distinct themes in each country.

Firstly, Malaysia obviously surpasses Bahrain in zakat, benevolent loans, shariah governance framework and shariah supervisory board themes, where all of these themes are related to the shariah dimension. Supposedly, a conservative country like Bahrain is expected to disclose more on shariah issues. However, Malaysia provides better disclosure (ordinary and quality) than Bahrain with regard to Shariah issues. The common reason that may explain this is that Malaysia's Islamic banks want religious legitimacy. However, looking back at the history and the construction of religious orientation in Malaysia, the reason is more because of the sensitivity of the stakeholders (organisational and individual stakeholders). For instance, zakat (Islamic levy) collection institutions (State Zakat Departments) might influence and encourage Islamic banks to pay zakat, thus increasing the disclosure of zakat.

Looking at the themes related to governance issues like the board of directors and top management, Bahrain discloses more on these themes compared to Malaysia. Again, looking at Bahrain which is culturally linked and geographically closer to the birthplace of Islam, it is illogical that Bahrain does not provide more information on shariah related issues. However, this might signal that religious legitimacy is easily obtained from society and/or the regulators. On the other hand, the relevant stakeholders are not sensitive towards shariah-related issues. The lower direction might be explained by the religious orientation of Bahrain as explained before in the Malaysian and Bahraini context.

Moreover, table 8.3 below may further support the discussion:-

NATIONAL RELIGIOUS ORIENTATION & SETTING			
	Importance of Religion	Following Religious Norms	Younger Generations' Quality of Religious Faith
Malaysia	84.8%	64.2	63.8%
Bahrain	40.6%	42.8	35.3%

Table 8.3: Importance of Religion in Malaysia & Bahrain (World Value Survey)

Table 8.3 provides an indicator that religion is a more important factor to Malaysian society as compared with Bahrain.

Since Malaysian society considers religion as an important matter, this further explains why Malaysian Islamic banks disclose more on shariah-related themes compared to Bahrain. Other religious, historical values such as the discipline in one school of thought might make them much more concerned with practicing certain standards in the sphere of the Islamic parameter. Moreover, as discussed in section “8.2 Malaysia and Bahrain context”, Malaysia and Bahrain are very distinct in nature. Even though they embrace the same Islamic banking concept, both of them advocate a different way of practicing social disclosure. In conclusion, Malaysia and Bahrain’s disclosures are different to each other, and this is because of the differences in values they embrace in religious orientation, social construct and historical values.

Furthermore, another feature that distinguishes Malaysia from Bahrain is that Malaysia concentrates more on a type of disclosure known as Social Internal Affairs (Reward & Benefits) while Bahrain focuses more on social external matters (Charity).

On another note, it is important to highlight that the environment dimension (Nature, Wild Life & Animal Rights, Recycling) has the lowest dimension in the disclosure. Even though Malaysian Islamic banks provide better quality disclosure as compared to Bahrain in environmental themes, the majority of the banks still need to put greater effort on this. This is in line with the Rizk (2014) argument that Islamic banks should embrace environmental issues as if they were guardians of it.

As explained earlier in '**Chapter 2: Background of Malaysia & Bahrain Environment and Framework**', the countries' differences in their institutional and regulatory approach might affect their disclosure commitment. Moreover, the history and background of a country's development in Islamic banking plays an important role towards how Islamic banks that operate inside the country react towards social reporting. The reason for this is that the external and internal stakeholders of Islamic banks may hold the country's values, ranging from religious orientation to administrative culture, that are embedded inside a particular geographical area and which shape how Islamic banks respond to SEGE disclosure.

As informed earlier, the stakeholders (society) that possess the country's values, whether progressive or conservative, will fill in the position in the Islamic banks itself and other institutional bodies that will naturalise the values that may affect the disclosure from the internal (Islamic banks) or the external (other organisations related to Islamic banks) side.

Next, the thesis will discuss the possible implications towards the administrative and professional field to complement the contribution towards the body of knowledge (literature).

8.7. Managerial & Policy Implication of the Study

A number of potential managerial implications may be derived from this study. **First**, specific insights gained from this study will help managers, board of directors, shariah supervisory boards and the managers that are in charge of the preparation of annual reports have a greater view on their role in Islamic bank social reporting initiatives. **Second**, regulators and non-governmental organisations that have a relationship with Islamic banks in the two countries might want to create a specific social reporting standard for the Islamic banking industry in each country. **Third**, given the turbulence of sustainability issues recently, Islamic banks can take part in worldwide initiatives, for instance in the Global Reporting Initiative (GRI), United Nation Environment programme (UNEP), or by creating a worldwide Islamic banking social and environmental initiative via the Organisation of Islamic Conference (OIC). **Fourth**, the suggested SEGE disclosure framework in chapter three can be utilised for the training and awareness programmes of professional bankers and chief operating officers of Islamic banks. Therefore, the Islamic banking industries will be equipped with the human resources and leaders that are aware of the practice and importance of the disclosure of social, shariah, environment, ethics and governance issues.

Fifth, this study also points out the importance of recognising a country's differences in planning and implementing the awareness of social reporting. For instance, the target stakeholders in a country that are conservative and with a moderate society may have a different approach. Malaysia might be satisfied with the pressure or awareness being signalled to regulators, institutions that relate to the Islamic finance industry, and the Islamic banks itself. However, in Bahrain the king and the royal family might need to be convinced on the importance of social reporting and sustainability in social, environmental and ethical aspects to get Islamic banks to produce better quality and more honest information in their social disclosure provided in the annual report. **Sixth**, this study also signals an important implication to policy and programme strategy. The result provides preliminary evidence that local societal behaviour might affect Islamic banks' behaviour and influence disclosure commitment and design. Next, the study constraints and future ideas will be elaborated.

8.8. Limitations and Areas for Further Research

The study has some constraints and prospects that could be addressed in future research. There are six points that will be elaborated in the later paragraph. **First** is the period of the study. **Second** is the extension and harmonisation of the checklist, with the literature in Islamic accounting and ethical business literature, into a more rigorous checklist. **Third** is the analysis of individual banks in a much longer period. **Fourth** is the integration of the sources of social reporting, for instance annual reports, websites, Facebook accounts, twitter, and newspapers. **Fifth** is comparing the universal disclosure checklist with conventional banks in both countries. **Lastly** is constructing a special checklist for graphics disclosure.

Firstly, the period of study will be elaborated upon. Since the time given to complete this study is limited, this imposed a limitation on the potential that the study could have achieved in a longer time. However, the period or time frame can be an opportunity for future research. The current study involved the years 2010 to 2014, which is a five-year period. Future research might analyse the disclosure of Islamic bank social reporting over a decade (ten years) as things usually move or change within 10 years. Moreover, the comparison of ten years of Malaysian and Bahraini Islamic banks' social reporting patterns would be beneficial to be understand.

Secondly, the extension and harmonisation of the checklists for social disclosure for Islamic banks. With more time, the checklists could be further improved and modified with previous Islamic accounting and business ethics literature. Furthermore, the checklists could also be constructed in a more extensive way by having more Global Reporting Initiative elements and United Nations environmental programme components. Even though this thesis employs some from the standard, with more time a more comprehensive and meaningful checklist could be produced with a combination of the literature and global and respected standards and initiatives.

Thirdly, future research can consider analysing a single bank or a number of banks which have been operating for a long time and comparing their results. For instance, with banks that have been operating for 20 years and above in each country. This might give some possibly valuable findings and interpretations.

Fourthly, it would be beneficial if a study could give comprehensive analysis and findings using data from annual reports, official websites, newspaper events, and the official corporate Facebook and twitter account. This would be challenging but rewarding as it would be time consuming and the model and checklist would need to be revised and tested against the above mediums of disclosure.

Fifth, it would be useful to have the universal checklist be compatible with conventional banks as studies can compare Islamic and conventional bank universal disclosure for both countries to get more insight into the differences between the countries.

Lastly, a limitation and potential opportunity for exploration is a specific graphics checklist for disclosure. Moreover, graphics can be further classified into unique and universal graphics disclosure as well. However, in this thesis, time has limited the innovation and creativity to develop such tools in measuring disclosure in graphics. Nevertheless, the graphics disclosure has been adequately measured in this thesis as discussed in section “6.4.4 Graphic Utilisation by the Countries”.

In the next section, which is the last section of the chapter and the thesis, the supposition of the thesis will be presented and explained, thus concluding the thesis.

8.9. Thesis Conclusion

In this main conclusion section, the judgement is based on the collective evidence from the content analysis result in chapter 6 and the analysis estimation in chapter 7. This evidence is later weaved with and reasoned through the theoretical lenses of stakeholder and legitimacy theory as the main theory while signalling, social norms and accountability theory act as the supporting theories to explain the research findings as discussed in chapter 4. Moreover, chapter 8 which discusses the Malaysian and Bahraini context in terms of religious orientation, social construct, and organisational and regulatory setting also helps in reasoning and understanding the social disclosure differences between these two countries.

Chapter 6 provides statistical and narrative information on country differences in ordinary³² and quality³³ disclosure while chapter 7 provides an estimation and investigates the religious and regulatory quality relationship with disclosure. Furthermore, the literature review and the theoretical foundation chapter also play an important role in understanding the evidence provided in chapter 6 and 7. Moreover, these chapters provide insight into how the stakeholder, legitimacy, accountability and social norms theory explain the disclosure of Islamic banks in Malaysia and Bahrain.

Studies which include Malaysia and Bahrain solely and have separate statistics for each of these countries is scarce in the literature. Moreover, only Mallin et al. (2014) and Hassan and Harahap (2010) find that Malaysian Islamic bank disclosure is superior to Bahraini Islamic banks. However, the theoretical underpinning of the differences in disclosure has never been explored with regards to these two countries even though these they can be described as the two main hubs for Islamic banking and finance as advocate by Mohd. Yusof and Bahlous (2013).

³² Disclosure Index measured by the compliance to the checklist.

³³ Disclosure score measured by the degree of disclosure (3 Level- L1=Phrases, L2=Policy, Graphics, L3=Statistical Evidence) Further information can be found in chapter 5.

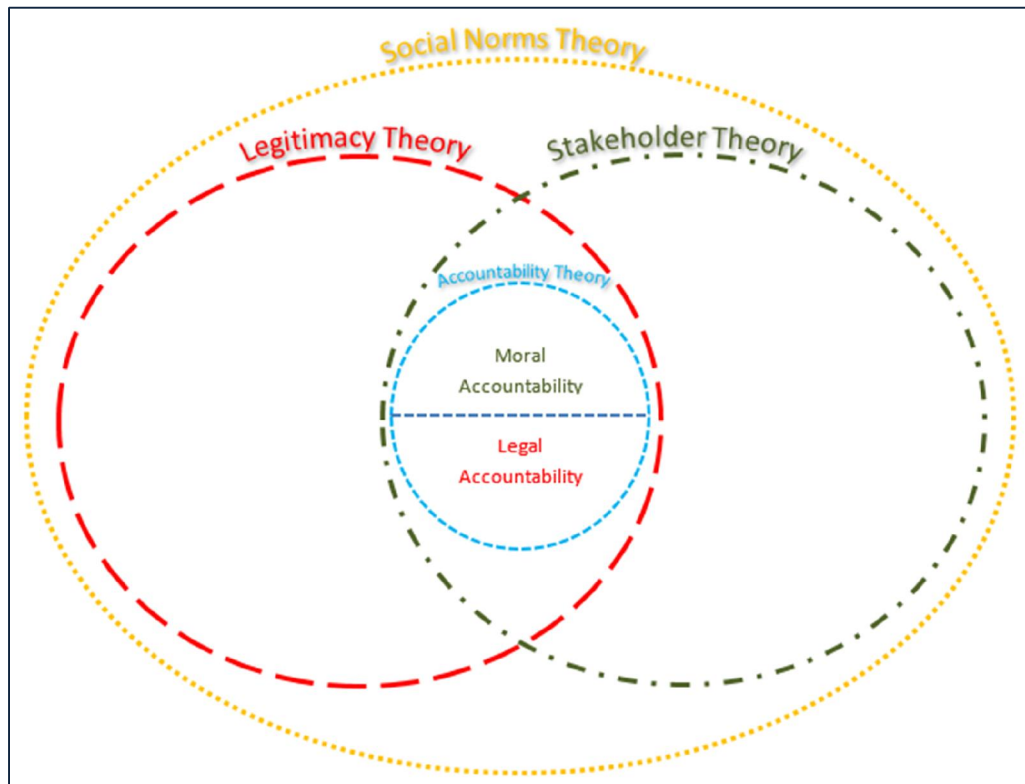


Figure 8.6: Thesis's Theories Perceptions & Application

Figure 8.6 provides universal information on how the thesis views the theories overlapping and complementing each other as advocated by Gray et al. (1995b). Having applied the theories in context, this thesis argues that, in explaining the disclosure of Islamic banks in Malaysia and Bahrain, the stakeholder and legitimacy theories are the most suitable. For instance, Islamic banks with quality disclosure move the disclosure forward to be accountable to a wider set of stakeholders while complying with the checklist in ordinary disclosure to signal their legitimacy in the annual report. However, there are additional theories that can complement the stakeholder and legitimacy theories and help explain the differences in disclosure, for instance the social norms and accountability theories.

The thesis argues that whether the Islamic banks disclose information for a wider set of stakeholders or just as a means of legitimacy depends on the orientation, values and norms of the particular country or geographical area. This has been indicated and discussed in section 8.2 Malaysia vs Bahrain context. This is because the values of the culture embedded in society will influence the disclosure. Moreover,

the thesis also provides further supporting figures from the World Values Survey, World Governance Indicator and Transparency International to provide further assistance in understanding the differences of disclosure in Malaysian and Bahraini Islamic banks, and this has been discussed earlier.

In the context of Malaysia and Bahrain, this thesis argues that a country with progressive values and norms will provide better disclosure for wider stakeholders while a country that embraces conservative values and norms will only provide disclosure that satisfies the minimal requirement for legitimacy from influential stakeholders. This is proven where the majority of Bahraini Islamic banks provide a standard disclosure and use more or less the same wording in the corporate responsibility section in the annual report each year, which signals that the legitimacy from the stakeholders is easily obtained. However, in the Malaysian context, Islamic banks disclosure is much more diversified as they disclose information beyond expectations in the annual report, which signals the banks commitment towards wider stakeholders.

In the literature Islamic bank disclosure usually relates to the need to be legitimate, for instance in Maali et al. (2006) and Haniffa and Hudaib (2007). However, concentrating and narrowing the scope to Malaysia and Bahrain has given a different perspective that supports that there are Islamic banks that disclose information which can be related to wider stakeholder accountability. This has been successful through the application of the 3 level approach influenced by and modified from Beck et al. (2010) and Botosan (1997). Through this, the quality measurement may help in identifying the Islamic banks that disclose information through the lenses of stakeholder theory. On top of this, this thesis also introduces the social norms theory to the literature, particularly to Islamic bank social reporting, as one of the complementary theories in explaining why Islamic banks disclose information to gain legitimacy or are accountable to wider stakeholders. Since social norms can be described as part of cultural extension, it is important to acknowledge its role in social reporting as this is a factor that does not change in a short period of time, as mentioned by Minkov and Hofstede (2012), Hofstede (2010),

Hofstede (2003), Hofstede (1983), and has influence on how the society of a particular country acts and responds towards worldly activity in general and disclosure specifically.

Moving further, one of the important materials to be displayed in this section is the *minimalist approach*³⁴ of Islamic banks in the disclosure as advocated by Belal et al. (2014). This thesis argues that Islamic banks have disclosed minimal information on environmental issues, for instance in the nature, wild life and recycling themes. Even though the top three Islamic banks in Malaysia disclose quality disclosure on these themes while this theme is not present for Islamic banks in Bahrain, the disclosure is still at a minimum level of less than 10%. These findings are in line with Rizk (2014) and Maali et al. (2006) where they argue that the environmental themes in disclosure have usually been neglected.

Overall, there are several points that this thesis advocates. **First**, based on the findings and evidence, Malaysia has better quality and ordinary disclosure compared to Bahraini Islamic banks. **Second**, Islamic banks in Malaysia are more stable and reliable in their social disclosure, as the movement in the ordinary to quality rank does not move with a huge gap. Moreover and most importantly, the top three ranked Islamic banks in Malaysia maintain the same position in quality and ordinary disclosure rank. **Third**, religiosity has a strong positive relationship with disclosure quality in the overall sample combining Malaysia and Bahrain. However, looking at the religious orientation differences, social construct and organisational differences based on the country's government's official documents and the world value survey, it is likely that Malaysian social disclosure is influenced positively by the importance of religion as compared to Bahrain. **Fourth**, this thesis found that regulatory quality influences quality disclosure positively for overall Islamic banks in Malaysia and Bahrain. However, in a separate estimation, only Malaysia is positively influenced by regulatory quality. This indicates that regulatory bodies, as stakeholders, have influence in Islamic bank disclosure in Malaysia while Bahrain

³⁴ Disclosure concentrating on Shariah themes as compared to more universal themes applied to conventional banks.

is not affected. **Fifth**, is the summary of the disclosure interpretation that links the findings in chapter 6 and 7 with the external variable and theories (see Appendix 9).

Moreover, the information in Appendix 9 provide complex summaries of the thesis' findings and discussion that leads to the theoretical assumption as the result of the comparison of the two disclosure results by Malaysia and Bahrain Islamic banks. At a glance, these differences may have materialised due the disparity between the two countries' cultures via societal values, ecological influence, institutional consequences, external influence and the reinforcement of the accounting values and systems (Sidney, 1988). These differences have made Malaysia and Bahrain Islamic banks accomplishments towards disclosure distinct to one other. In the case of this thesis' investigation, Malaysia provides more evidence-based disclosure as compared to Bahraini Islamic banks, and this signals that Malaysian Islamic banks may respond to a wider stakeholder group. However, Bahrain Islamic banks seem to provide disclosure for symbolic purposes at the phrases (mentioning) level in the annual report (Soobaroyen and Ntim, 2013, Day and Woodward, 2004, Brendan, 2002). The symbolic disclosure in Bahraini Islamic banks is strengthened by the findings in chapter 6 where majority of the top 10 Islamic banks' rankings dropped in ordinary disclosure when compared to the ranking of quality disclosure. Meanwhile, the top 3 Malaysian Islamic banks maintain the same place in ordinary and quality disclosure and there is some small movement by the other 7 Islamic banks.

Furthermore, as discussed before, the thesis reiterates that better disclosure is provided when Islamic banks operate in a more religious country or geographical area, and this is in line with the argument of Walker et al. (2012) and the findings of Brammer et al. (2007). This is once again supported by the high score of the importance of religion in Malaysia and the low score in Bahrain. Moreover, it is important to note that Islamic banks that operate within the religious banner are inevitably influenced by how important the local society perceives religion in the country. The results and findings in both countries are in agreement with the theories and other supportive instruments provided (Refer to Appendix 9). This may suggest that the existing literature and theories are applicable and parallel with

the cultural setting, societal values, institutional-ecological influences and accounting system-value (Sidney, 1988) in the Malaysian and Bahraini Islamic bank context.

Above all, this thesis highlights and advocates the importance of the individual and societal (small stakeholder) role in shaping organisational stakeholders. This is because the individuals and society will be the ones that fill the work force in the organisational stakeholder, for instance from central banks, financial service authorities, non-governmental organisations, and watchdog groups.

Furthermore, the values that are embedded in the individuals that work in the organisations are shaped from the values they learn and are exposed to (normally the country's values whether they be in social or religious affairs). Moreover, this will affect (in the case of this thesis) Islamic bank social disclosure. Likewise, if society is exposed to ethical and moral standards, good environmental values and (in the case of this thesis) a progressive religious orientation, it will ideally bring sustainability, not just from the **shareholders' business perspective** but also from the **ethical stakeholder business perspective**.

Also important to note is that, in this thesis, the concept of **influential** and **non-influential** stakeholders plays an important role in shaping disclosure in a particular country. The stakeholders will respond in **positive** (Feedback/Response/Advice) or **negative** (Complaints/Criticism/Whistle Blowing) ways towards information they receive. In this thesis, it is identified or presumed that the stakeholders in Malaysia are more sensitive towards Islamic bank disclosure as compared to Bahrain based on the findings and the country's social and religious environment.

Finally, this thesis reveals that the complexity of the social reporting of Islamic banks has its roots in matters ranging from religious orientation differences to multifarious social constructs and this will determine the type of stakeholders that shape how Islamic banks disclose information. Thus, this makes these two models of Islamic bank social reporting distinct from each other. It is hoped that this study's argument on theoretical foundations and the empirical results from both countries have

provided an insight into embarking on future research. Therefore, this thesis serves as a valuable foundation for debate for both academics and practitioners in extending the literature and practices of social reporting by Islamic banks.

End of Thesis

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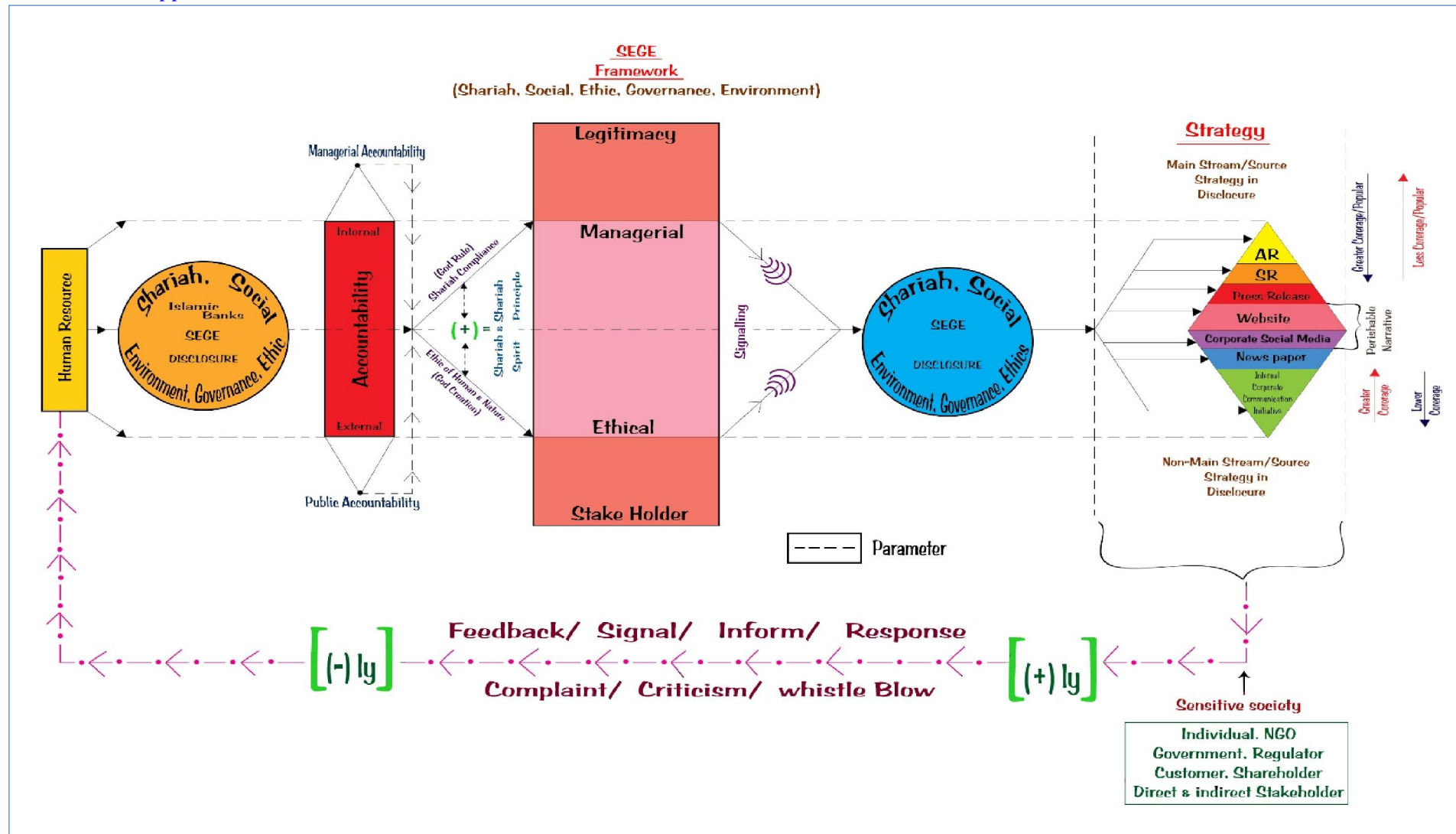
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APPENDICES

Appendix.1. SEGE Disclosure Framework for Islamic Bank



Appendix.2. Content_Analysis_3_Level Scoring Sheet

Bank's Name: _____ Annual Report Year _____

SEGE INDICATOR- Σ =	STAGE 1- Σ =	STAGE 2- Σ =	STAGE 3- Σ =	GRAPHIC- Σ =	NOTES
SHARIAH - Σ =	Σ =	Σ =	Σ =	Σ =	
Shariah Compliance on Banking Transaction- Σ =					
Shariah Awareness - Σ =					
Zakat - Σ =					
Benevolent Loan@Qard Hassan - Σ =					
Islamic Commitment - Σ =					
SHARIAH GOVERNANCE SYSTEM - Σ =	Σ =	Σ =	Σ =	Σ =	
Shariah Governance Framework - Σ =					
Shariah Supervisory Board- Σ =					
SOCIAL EXTERNAL- Σ =	Σ =	Σ =	Σ =	Σ =	
Community Involvement- Σ =					
Charity - Σ =					
Sponsorship Σ =					
SOCIAL INTERNAL - Σ =	Σ =	Σ =	Σ =	Σ =	
Human Resource and Capital Management- Σ =					
Reward and Benefit- Σ =					
ENVIRONMENT - Σ =	Σ =	Σ =	Σ =	Σ =	
Nature- Σ =					
Wild Life- Σ =					
Recycle- Σ =					
ETHIC- Σ =	Σ =	Σ =	Σ =	Σ =	
Institutional Ethic- Σ =					
Business Ethic- Σ =					

Bank's Name: _____ Annual Report Year _____

GOVERNANCE- Σ =	Σ =	Σ =	Σ =	Σ =	
Board of Director - Σ =					
Management - Σ =					
Guiding Principle of Governance - Σ =					

Appendix.3. 3 Level Coding Procedure

Level Criteria	LEVEL 1	LEVEL 2	LEVEL 3
CRITERIA BASED ON SEGE INDIVIDUAL DIMENSIONS & THEMES	Narrative Phrases (Complete phrase regarding a theme)	1st Spectrum= Narrative Phrases with Policy or Framework Embedded <u>Or</u> 2nd Spectrum= Narrative Phrases with Graphic (Which Do Not hold information - Number, Value, Figure, Indicator, Measurement, Fact) <u>Or</u> 3rd Spectrum = Graphics (Which Do Not hold information - Number, Value, Figure, Indicator, Measurement, Fact)	1st Spectrum = Narrative Phrases with statistic (Number, Value, Figure, Indicator, Measurement, Fact) <u>Or</u> 2nd Spectrum = Narrative Phrases and Graphic with statistic (Number, Value, Figure, Indicator, Measurement, Fact) <u>Or</u> 3rd Spectrum = Graphic with statistic (Which held information- Number, Value, Figure, Indicator, Measurement, Fact)

Appendix.4. SEGE Excel Scoring Checklist

Shariah D

Shariah Dimension Checklist

Islamic Banking SEGE Disclosure Checklist (Shariah, Social, Environment, Governance & Ethical)		
#	SHARIAH	Literature & Sources
	Shariah Compliance on Banking Transaction	
1	Disclosure of any non-permissible transactions	Haniffa and Hudaib (2007)-Belsal et al (2014)
2	Percentage of profit from non-permissible activities	Haniffa and Hudaib (2007)-Belsal et al (2014)
3	Amount of revenue earned in non-permissible transactions	Maali et al.(2006)-Belsal et al (2014)
4	Disclosure of how gains from non-permissible activities have been handled	Haniffa and Hudaib (2007)/Maali et al.(2006)-Belsal et al (2014)
5	Disclosure of reasons for undertaking non-permissible transactions	Maali et al.(2006)-Belsal et al (2014)
6	Disclosure of amount charged as late penalties	Maali et al. (2006)-Belsal et al (2014)
7	SSB opinion regarding permissibility of late penalties	Maali et al. (2006)-Belsal et al (2014)
8	Details of how are penalties allocated and discharged to charity	Maali et al. (2006)-Belsal et al (2014)
	Total	
	Shariah Awareness	
9	Does the bank train employees in Sharia Awareness	Haniffa and Hudaib (2007)-Belsal et al (2014)
10	Have new services been approved by SSB	Haniffa and Hudaib (2007)-Belsal et al (2014)
11	Explanation of shariah concept to legitimising services	Haniffa and Hudaib (2007)-Belsal et al (2014)
12	Commitments to engage only in permissible banking activities	Haniffa and Hudaib (2007)-Belsal et al (2014)
13	Commitments to fulfil contracts via contract (uqud) statement & (aqad) verbal	Haniffa and Hudaib (2007)-Belsal et al (2014)
14	Any initiative in involving in conferences or seminar in Islamic Finances	Haniffa and Hudaib (2007)-Belsal et al (2014)
15	Any mechanism to comply with Sharia in their commercial activity?	AAOIFI
	Total	
	Zakat	
16	Is the bank required to pay Zakah	Maali et al. (2006)-Belsal et al (2014)
17	Does the bank pay Zakah	Maali et al. (2006)-Belsal et al (2014)
18	Balance of Zakah fund	Maali et al. (2006)-Belsal et al (2014)
19	Reason for non-distribution of Zakah fund	Maali et al. (2006)-Belsal et al (2014)
20	Has a statement been provided show sources and uses of Zakah fund	Maali et al. (2006)-Belsal et al (2014)
21	Reason for balance of zakat	Haniffa and Hudaib (2007)-Belsal et al (2014)
22	Information that sources and/or uses of zakat according to Shariah	Haniffa and Hudaib (2007)-Belsal et al (2014)
23	Information that zakat has been computed according to Shariah	Haniffa and Hudaib (2007)-Belsal et al (2014)
	Total	
	Benevolent Loan@Qard Hassan & Debt Management	
24	Does the bank finance Qard Hassan	Haniffa and Hudaib (2007)-Belsal et al (2014)
25	Source of Qard Hassan fund	Haniffa and Hudaib (2007)-Belsal et al (2014)
26	Does bank finance Qard Hassan from own or depositors resources	Haniffa and Hudaib (2007)-Belsal et al (2014)
27	Is there a formal scheme for depositors to designate funds for Qard Hassan	Maali et al. (2006)-Belsal et al (2014)
28	Balance of Qard Hassan fund	Haniffa and Hudaib (2007)-Belsal et al (2014)
29	Is there any policy for providing Qard Hassan	Haniffa and Hudaib (2007)-Belsal et al (2014)
30	Does the bank disclose policy for dealing with insolvent clients?	Maali et al. (2006)-Belsal et al (2014)
31	Does the bank communicate a debt management policy ?	Haniffa and Hudaib (2007)-Belsal et al (2014)
32	Any debts written off in reporting period	Haniffa and Hudaib (2007)-Belsal et al (2014)
	Total	
	Islamic Value Commitment-bank-Wide	
33	Islamic art & motive in their annual report	Kamla, R. and C. Roberts (2010)
34	Departmental & Bankwide celebration of Eidul Fitri	Kamla, R. and C. Roberts (2010)-Observation on Picture of Charitable link to Religion
35	Departmental & Bankwide breakfast programme for fasting month(Ramadhan)	Kamla, R. and C. Roberts (2010)-Observation on Picture of Charitable link to Religion
36	Commitments in operating within Shari'ah principles	Haniffa and Hudaib (2007)-Belsal et al (2014)
37	Is there any quranic and hadith verse in the annual report?	Kamla, R. and C. Roberts (2010)
38	Current directions in serving the needs of the Muslim community	Haniffa and Hudaib (2007)-Belsal et al (2014)
39	Mentioned any future directions in serving the needs of Muslim community	Haniffa and Hudaib (2007)-Belsal et al (2014)

Shariah Governance Dimension Checklist

SHARIAH GOVERNANCE SYSTEM	
<u>Shariah Governance Framework</u>	
40 Does the bank declare any shariah governance framework adopt by the bank?	IFSB-10(2009)
41 Competence-Does the banks disclose the training provided to SSB member to enhance professionalism and effectiveness?	IFSB-10(2009)
42 Competence-Does the banks disclose any formal assesment of its SSB members?	IFSB-10(2009)
43 Independence-Does the banks declare that the SSB member does not have any blood or intimate relationship with the IFI	IFSB-10(2009)
44 Confidentiality-Does the banks inform the SSB on confidentiality procedure & consequences?	IFSB-10(2009)
45 Consistency-Does the banks disclose any Shariah compliance resolution/pronouncements and its process in annual report	IFSB-10(2009)
Total	
<u>Shariah Supervisory Board</u>	
46 Is there a Sharia Supervisory Board (SSB)?	Maali et al.(2006)-Belal et al (2014)
47 Is there a description of the role of the SSB?	Ghayad(2008)-Belal et al (2014)
48 Disclosure of SSB members profile?	Maali et al.(2006)-Belal et al (2014)
49 Disclosure of number of meetings have the SSB held in the year?	Haniffa and Hudaib (2007)-Belal et al (2014)
50 Is there any pictures of the SSB members provided?	Haniffa and Hudaib (2007)-Belal et al (2014)
51 Is there any SSB members with doctoral qualifications?	Maali et al.(2006)-Belal et al (2014)
52 Do SSB members have experience on banking?	Ghayad(2008)-Belal et al (2014)
53 Has the SSB report provided?	Maali et al.(2006)-Belal et al (2014)
54 Disclosure of SSB opinions regarding compliance with Islamic Principles	Maali et al.(2006)-Belal et al (2014)
55 Is there any disclosure on remuneration of SSB Members?	Haniffa and Hudaib (2007)-Belal et al (2014)
56 Has the SSB Report Signed by All Members?	Haniffa and Hudaib (2007)-Belal et al (2014)
57 Opinion, concern or condition of SSB regarding non-compliance transactions?	Maali et al.(2006)-Belal et al (2014)
Total	

Social External Dimension Checklist

<u>SOCIAL EXTERNAL</u>		
<u>Community Involvement</u>		
58	Does the bank have a statement or policy to promote local community development?	GRI/OECD(2011)-Belal et al (2014)
59	Any financial quantification of community work ?	Belal(2001)-Belal et al (2014)
60	Any disclosure of sources of funds used for community activities ?	Maali et al. (2006)-Belal et al (2014)
61	Is there a description of community engagement programmes	G4-SO1
62	Is the bank committed to supporting community organisations?	Haniffa and Hudaib (2007)-Belal et al (2014)
63	Any mention of commitment to local economic development?	Birth, Illia, Lurati and Zamparini (2008)-Belal et al (2014)
64	Does the bank mention on creating Job Opportunities?	Haniffa and Hudaib (2007)-Belal et al (2014)
65	Does the bank require corporate client demonstrate community involvement?	Equator Principle(2013)
Total		
<u>Charity</u>		
66	Is there any description of charitable activities done?	Belal(2001)-Belal et al (2014)
67	Any disclosure on amount of charitable donation expenditure?	Belal(2001)-Belal et al (2014)
68	Mentioned the sources funds used for charitable donations	Maali et al. (2006)-Belal et al (2014)
69	Does the bank support employee involvement in charities?	AAOIFI/CSEAR(1990-1991)-Belal et al (2014)
70	Amount spent on donations through employee schemes?	CSEAR(1990-1991)-Belal et al (2014)
71	Any disclosure on balance of charity fund?	Haniffa and Hudaib (2007)-Belal et al (2014)
72	Any disclosure of bank charity fund policy?	Haniffa and Hudaib (2007)-Belal et al (2014)
Total		
<u>Sponsorship</u>		
73	Does the organisation sponsor any public programmes?	Suwaïdan and Al-omari(2004)-Belal et al (2014)
74	Does the organisation sponsor any educational events?	Suwaïdan and Al-omari(2004)-Belal et al (2014)
75	Does the company sponsor work experience programmes for students?	Suwaïdan and Al-omari(2004)-Belal et al (2014)
76	Does the company sponsor scholarships for students?	Suwaïdan and Al-omari(2004)-Belal et al (2014)
77	Is the organisation involved in any arts related activities?	Birth et al.(2008)-Belal et al (2014)
78	Any disclosure on the expenditure incurred in sponsorships?	Belal(2001)-Belal et al (2014)
79	Does the bank disclose any sponsorship for breakfast programme during ramadhan?	Kamla, R. and C. Roberts (2010)-Observation on Picture of Charitable link to Religious
80	Does the bank disclose sponsor of any orphanage or old folks home to sponsor in the annual report?	Kamla, R. and C. Roberts (2010)-Observation on Picture of Charitable link to Religious
Total		

Social Internal Dimension Checklist

<u>SOCIAL INTERNAL</u>		
<u>Human Resource and Capital Management</u>		
81	Disclosure of number of employees or turn over?	Haniffa and Hudaib (2007)-Belal et al (2014)
82	Does the bank disclose any equal opportunities and right statement or policy?	Haniffa and Hudaib (2007)-Belal et al (2014)
83	Any disclosure on employees welfare sheme or activitiy?	Haniffa and Hudaib (2007)-Belal et al (2014)
84	Does the bank disclose any scheme for training & development?	AAOIFI/Haniffa and Hudaib (2007)-Belal et al (2014)
85	Does the bank stipulate provision of employees right (e.g fair treatment, fair salary structure, provision of good compensation scheme and etc)?	AAOIFI
86	Does the bank communicate the employment policy to the staff before the commencement of employment?	AAOIFI
87	Does the bank disclose any (OSHA) policy or concern in the annual report?	G4-LA5-GRI/AAOIFI
88	Any policy or measures on employee discrimination?(gender,religion,disability,socia-eco background)	AAOIFI
Total		
<u>Reward and Benefit</u>		
89	Any reward disclose for employees in annual report?	Haniffa and Hudaib (2007)-Belal et al (2014)
90	Is there any disclosure regarding employee retirement provision	G4-LA2-GRI
91	Does the bank disclose amount of salary expenses for employee in annual report?	G4-LA13-GRI
92	Does the bank declare employee medical benefit expenses in the annual report?	G4-LA2-GRI
93	Does the bank mentioned of employees annual leave scheme in annual report?	AAOIFI
94	Does the bank disclose any employee promotion structure or policy?	AAOIFI
95	Does the bank disclose any provision of parental leave or flexible working hour for employee?	G4-LA2-GRI/AAOIFI
Total		

Environment Dimension Checklist

ENVIRONMENT		
	<u>Nature</u>	
96	Nature of activities to Protect Environment	Haniffa and Hudaib (2007);Maali et al., Casson and Napier (2006)-Belal et al (2014)
97	Amount donated on protecting environment	Haniffa and Hudaib (2007);Maali et al. (2006)-Belal et al (2014)
98	Details of Project financed which caused harm for environment	Haniffa and Hudaib (2007);Maali et al. (2006)-Belal et al (2014)
99	Environmental policy statement	Cho, Patten, and Roberts (2006)-Belal et al (2014)
100	Support reforestation	Rizk, R. (2014)
101	Any policy disclosure on Bank's client Environmental Assessment	G4-EN31-GRI(Global Reporting Initiative)
	Total	
	<u>Wild Life & Animal Right</u>	
102	Wild Life sponsorship	Rizk, R. (2014)
103	Express concern on wild life	Rizk, R. (2014)
104	Any disclosure on bank's initiative on protection of habitat where wild life lives?	G4-EN13-GRI(Global Reporting Initiative)
105	Policy avoid financing to company that involved in animal experiment & Exploitation	Harvey, B. (1995)
106	Policy avoid financing to company that involved in blood sport	Harvey, B. (1995)
107	Policy avoid financing to company that involved in Factory Farming	Harvey, B. (1995)
	Total	
	<u>Recycle</u>	
108	Recycle statement or initiative	AAOIFI
109	Any disclosure on detail of office waste management of office paper, toner and recycleable material?	AAOIFI/G4-EN23-GRI(Global Reporting Initiative)
110	Any disclosure of total weight of disposal waste that can be recycle or re-use?	G4-EN23-GRI(Global Reporting Initiative)
	Total	

Ethics Dimension Checklist

ETHIC	
Institutional Ethic	
111 Does the bank apply any ethical code of conduct ?	Graafland, Kaptien, and Mazereeuw-van der Duijn Schouten(2006)-Belal et al (2014)
112 Has this ethical code of conduct been described?	Graafland et al.(2006)-Belal et al (2014)
113 Is there an ethical committee?	Graafland et al.(2006)-Belal et al (2014)
114 Are employees trained in-house for bank ethical policies?	Graafland et al.(2006)-Belal et al (2014)
115 Does the bank disclose any customer protection policy?	Suwaaidan and Al-omari(2004)-Belal et al (2014)
116 Policy and compliance mechanism for consumer privacy	Sutantoputra(2009)-Belal et al (2014)
117 Any disclosure on number or info on customer complaint ?	G4-GRI(2000-2001)-Belal et al (2014)
118 Any disclosure on number of customer complaint resolved?	G4-GRI(2000-2001)-Belal et al (2014)
119 Any statement stating that the bank's code of ethics comply with the Sharia?	AAOIFI
Total	
Business Ethic	
120 Policy avoid financing to company that involved in human right breaches	Harvey, B. (1995)
121 Policy avoid financing to company that involved in Armament	Harvey, B. (1995)
122 Screening policy and procedure concern for social impact in giving financing	Equator Principle(2013)
123 Screening policy& procedure concern for environmental impact in giving financing	Equator Principle(2013)
124 Policy-Any External reviewer on client commitment on social performance?	Equator Principle(2013)
125 Policy-Any External reviewer on client commitment on environmental performance?	Equator Principle(2013)
126 Policy-Submission of annual report on environmental impact by client	Equator Principle(2013)
127 Policy-Submission of annual report on social impact by client	Equator Principle(2013)
128 Does the bank consider socially impact investment in its business	AAOIFI
129 Does the bank promote social saving or investment	AAOIFI
130 Does the bank promote small business and/or micro financing	AAOIFI
Total	

Governance Dimension Checklist

GOVERNANCE SYSTEM		
<u>Board of Director</u>		
131	Names of board members	Haniffa and Hudaib (2007)-Belal et al (2014)
132	Positions of board members	Haniffa and Hudaib (2007)-Belal et al (2014)
133	Pictures of board members	Haniffa and Hudaib (2007)-Belal et al (2014)
134	Profile of board members	Haniffa and Hudaib (2007)-Belal et al (2014)
135	Any information disclose on shareholdings of board members?	Haniffa and Hudaib (2007)-Belal et al (2014)
136	Any disclosure on measure to develop competencies & knowledge for BOD?	G4-43-GRI
137	Any disclosure on board composition : executive vs non-executive?	Haniffa and Hudaib (2007)-Belal et al (2014)
138	Number of board meeting	Haniffa and Hudaib (2007)-Belal et al (2014)
139	Is there any regular evaluation of effectiveness of BOD ?	AAOIFI
140	Does the remuneration and/or Incentives or policies being reported appropriately?	G4-51-GRI/AAOIFI
Total		
<u>Top Management</u>		
141	Names of top management team	Belal et al (2014)
142	Positions of top management team	Belal et al (2014)
143	Picture of top management team	Belal et al (2014)
144	Profile of top management team	Belal et al (2014)
Total		
<u>Guiding Principle of Governance</u>		
145	Description of role and function of the Board of Directors	IFSB-3(2006)-Belal et al (2014)
146	Description of role and function of Executive Management	IFSB-3(2006)-Belal et al (2014)
147	Description of role and function of Internal auditors	IFSB-3(2006)-Belal et al (2014)
148	Description of role and function of external auditors	IFSB-3(2006)-Belal et al (2014)
149	Description of role and function of SSB	IFSB-3(2006)-Belal et al (2014)
150	Any adoption of internationally recognised corporate governance standards?	IFSB-3(2006)-Belal et al (2014)
151	Has the bank tailored its governance policy to meet any recognised best practice?	IFSB-3(2006)-Belal et al (2014)
152	Has the bank set up a Governance Committee?	IFSB-3(2006)-Belal et al (2014)
153	Does the Governance Committee include a diverse range of experienced members?	IFSB-3(2006)-Belal et al (2014)
154	Is there any predefined set of transparent criteria for selection of members of BOD or SSB or management	AAOIFI
155	Any succession planning and leadership programme development that cover training and education for BOD or management	AAOIFI
Total		

Bank's Name: Bank Rakyat Malaysia Berhad (BRMB)Annual Report Year: 2013

(40)

Appendix.5. Example of 3 Level Coding Sheet

SEGE INDICATOR - $\Sigma = 134/36$	STAGE 1 - $\Sigma = 31$	STAGE 2 - $\Sigma = 29$	STAGE 3 - $\Sigma = 74$	GRAPHIC - $\Sigma = 36$	NOTES	
SHARIAH - $\Sigma = 16/2$	$\Sigma = 5$	$\Sigma = 0$	$\Sigma = 11$	$\Sigma = 2$		⑨
Shariah Compliance on Banking Transaction - $\Sigma = 1$	①					1
Shariah Awareness - $\Sigma = 1$	①					1
Zakat - $\Sigma = 11/2$	②		⑨	②	Good - they tell how many managed by bank & how many distributed to state gov.	3
Benevolent Loan @ Qard Hassan - $\Sigma = 2$			②			3
Islamic Commitment - $\Sigma = 1$	①					1
SHARIAH GOVERNANCE SYSTEM - $\Sigma = 15/6$	$\Sigma = 8$	$\Sigma = 6$	$\Sigma = 1$	$\Sigma = 6$		④
Shariah Governance Framework - $\Sigma = 1$	①					1
Shariah Supervisory Board - $\Sigma = 14/6$	④	⑥	①	⑥	One and only bank strictly ask all SSB all to signed.	3
SOCIAL EXTERNAL - $\Sigma = 41/9$	$\Sigma = 3$	$\Sigma = 6$	$\Sigma = 32$	$\Sigma = 9$		⑨
Community Involvement - $\Sigma = 6$	②		④			3
Charity - $\Sigma = 21/6$	①	④	①⑥	⑥		3
Sponsorship - $\Sigma = 14/3$		②	⑫	③	many evidence on Scholarship	3
SOCIAL INTERNAL - $\Sigma = 21/3$	$\Sigma = 6$	$\Sigma = 1$	$\Sigma = 14$	$\Sigma = 3$		⑥
Human Resource and Capital Management - $\Sigma = 12/3$	②	①	⑨	③		3
Reward and Benefit - $\Sigma = 9$	④		⑤		Chairman award - holiday voucher	3
ENVIRONMENT - $\Sigma = 0/0$	$\Sigma =$	$\Sigma =$	$\Sigma =$	$\Sigma =$		④
Nature - $\Sigma =$						0
Wild Life - $\Sigma =$						0
Recycle - $\Sigma =$						0
ETHIC - $\Sigma = 15/2$	$\Sigma =$	$\Sigma = 2$	$\Sigma = 13$	$\Sigma = 2$		④
Institutional Ethic - $\Sigma = 2$		①	①		Customer Protection Policy (COP) / Customer Complaint	3
Business Ethic - $\Sigma = 13/2$		①	⑫	②	micro financing 100 mil, lots of micro credit scheme	3

Amirul Haqem Abd Ghani
(Social, Shariah, Ethic, Governance & Environment)Islamic Bank SEGE Disclosure Checklist & Indicator
Private & Confidential

Appendix.6. Example of Checklist Coding in Excel

		B	N	O	P	Q	R	S	T	U	V	W	X	Y	Z	AA	AB	AI	AJ	AK	AL
1			BIMB-14		BIMB-13		BIMB-12		BIMB-11		BIMB-10										
2		Islamic Banking SEGE Disclosure Checklist (Shariah,Social,En	2014	2013	2012	2011	2010														
3			Score	Proportion	Score	Proportion	Score	Proportion	Score	Proportion	Score	Proportion	Score	Proportion							
4	#	SHARIAH	51%	13%	46%	12%	49%	12%	44%	11%	44%	11%							47%	12%	
5		Shariah Compliance on Banking Transaction	0.5		0.5		0.5		0.375		0.375								0.45		
6	1	Disclosure of any non-permissible transactions	1	8	1	8	1	8	0	8	1	8							dapat dari 8 kali Stahun		
7	2	Percentage of profit from non-permissible activities	0		0		0		0		0										
8	3	Amount of revenue earned in non-permissible transactions	1		1		1		1		1										
9	4	Disclosure of how gains from such activities have been handle	1		1		1		1		0										
10	5	Disclosure of reasons for undertaking non-permissible transa	0		1		1		0		0										
11	6	Disclosure of amount charged as late penalties	1		0		0		1		1										
12	7	SSB opinion regarding permissibility of late penalties	0		0		0		0		0										
13	8	Details of how are penalties allocated and discharged to chari	0		0		0		0		0										
14		Total	4		4		4		3		3		TOTAL		18						
15		Shariah Awareness	0.857143		0.571429		0.714286		0.571429		0.571429								0.657143		
16	9	Does the bank train employees in Sharia Awareness	1	7	0	7	1	7	1	7	1	7									
17	10	Have new services been approved by SSB	1		0		0		0		0										
18	11	Explanation of shariah concept to legitimising new service	1		1		1		1		0										
19	12	Commitments to engage only in permissible banking activitie	0		1		1		1		1										
20	13	Commitments to fulfil contracts via contract (uqud) statemen	1		1		1		0		0										
21	14	Any initiative in organising conferences in Islamic Finances	1		1		1		0		1										
22	15	Any mechanism to comply with Sharia in their commercial act	1		0				1		1										
23		Total	6		4		5		4		4		TOTAL		23						
24		Zakat	0.375		0.375		0.625		0.375		0.5								0.45		
25	16	Is the bank required to pay Zakah	1	8	1	8	1	8	1	8	1	8									
26	17	Does the bank pay Zakah	1		1		1		1		1										
27	18	Balance of Zakah fund	0		0		0		0		0										
28	19	Reason for non-distribution of Zakah fund	0		0		0		0		0										
29	20	Has a statement been provided show sources and uses of Zak	0		0		1		0		0										
30	21	Reason for balance of zakat	0		0		0		0		0										
31	22	Information that sources and/or uses of zakat according to Sh	0		0		1		0		1										
32	23	Information that zakat has been computed according to Shari	1		1		1		1		1										
33		Total	3		3		5		3		4		TOTAL		18						
34		Benevolent Loan@Qard Hassan & Debt Management	0.111111		0		0		0.111111		0.111111								0.066667		
35	24	Does the bank finance Qard Hassan	0	9	0	9	0	9	0	9	0	9									
36	25	Source of Qard Hassan fund	0		0		0		0		0										
37	26	Does bank finance Qard Hassan from own or depositors resou	0		0		0		0		0										
38	27	Is there a formal scheme for depositors to designate funds fo	0		0		0		0		0										
STATISTIC BIMB-SEGE_Indicator_Scores BIMB-SEGE_Indicator_Scores B-RAKYAT-SEGE_Indicator_Scores AFFIN-I-SEGE_Indicator_Scores RHB-I-SEGE_Indicator_Scores																					

Appendix.7. Nodes Coding in Nvivo

Nodes							
Name	Sources	References	Created On	Created By	Modified On		
A) SHARIAH-Dimension		209	1730 23/01/2016 15:50	A	31/10/2016 22:48		
Benevolent Loan@Qard Hassan & Debt Management		55	93 23/01/2016 15:54	A	26/10/2016 18:14		
Islamic Value Commitment		174	716 23/01/2016 15:54	A	31/10/2016 22:38		
Shariah Awareness		124	320 23/01/2016 15:53	A	31/10/2016 20:37		
Shariah Compliance on Banking Transaction		142	249 23/01/2016 15:52	A	31/10/2016 22:46		
Zakat		165	445 23/01/2016 15:53	A	31/10/2016 22:48		
B) SHARIAH GOVERNANCE-Dimension		213	1282 23/01/2016 15:56	A	31/10/2016 22:49		
Shariah Governance Framework		88	207 23/01/2016 15:58	A	22/10/2016 22:09		
Shariah Supervisory Board		197	1099 23/01/2016 15:59	A	31/10/2016 22:49		
C) SOCIAL EXTERNAL-Dimension		125	937 23/01/2016 16:01	A	31/10/2016 22:49		
Charity		121	586 23/01/2016 16:03	A	31/10/2016 22:49		
Community Involvement		60	214 23/01/2016 16:03	A	31/10/2016 22:43		
Sponsorship		68	245 23/01/2016 16:04	A	31/10/2016 22:43		
D) SOCIAL INTERNAL-Dimension		174	937 23/01/2016 16:07	A	31/10/2016 22:48		
Human Resource and Capital Management		103	405 23/01/2016 16:08	A	31/10/2016 21:11		
Reward and Benefit		170	536 23/01/2016 16:08	A	31/10/2016 22:48		
E) ENVIRONMENT-Dimension		19	102 23/01/2016 16:10	A	31/10/2016 17:23		
Nature		17	60 23/01/2016 16:11	A	31/10/2016 17:23		
Recycle		12	22 23/01/2016 16:12	A	30/10/2016 22:34		
Wild Life & Animal Right		7	32 23/01/2016 16:11	A	14/03/2016 11:07		
F) ETHIC-Dimension		105	265 23/01/2016 16:13	A	31/10/2016 22:50		
Business Ethic		36	86 23/01/2016 16:15	A	31/10/2016 20:43		
Institutional Ethic		89	179 23/01/2016 16:14	A	31/10/2016 22:50		
G) GOVERNANCE SYSTEM-Dimension		198	2989 23/01/2016 16:17	A	31/10/2016 22:48		
Board of Director		191	1687 23/01/2016 16:17	A	31/10/2016 22:48		
Guiding Principle of Governance		196	939 23/01/2016 16:18	A	31/10/2016 22:45		
Top Management		101	397 23/01/2016 16:18	A	31/10/2016 22:40		

Appendix.8. Social Internal Dimension disclosure example picture



"Bank Rakyat cares about our needs and has provided a lot of facilities for workers with special needs like ramps, electric wheelchair and special toilets. I want to continue to serve at Bank Rakyat"

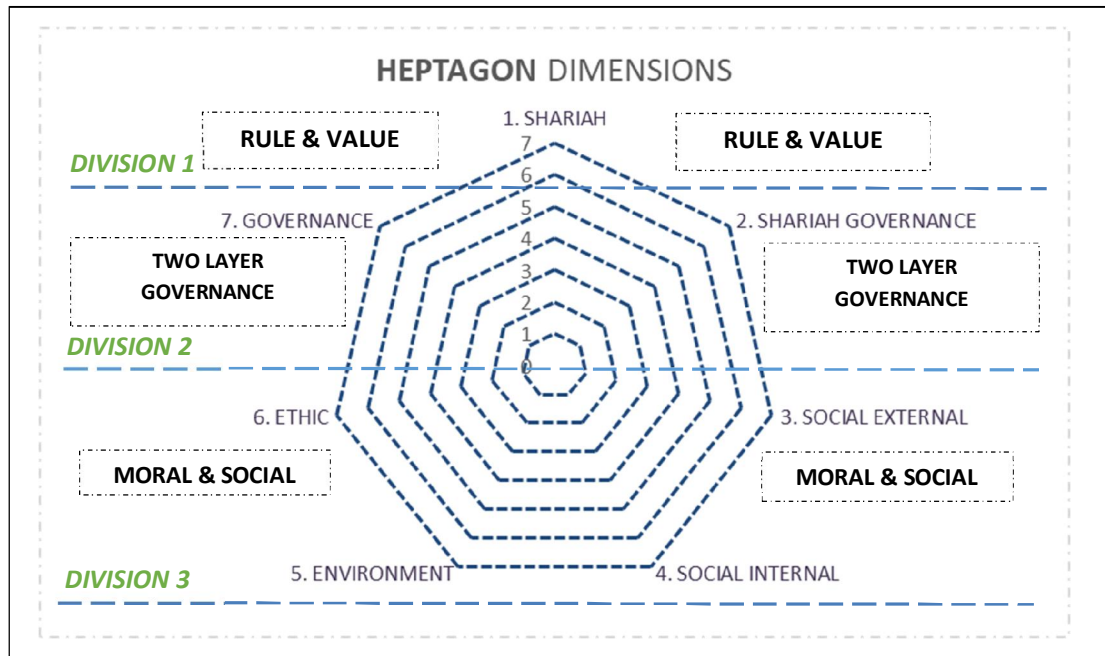
Marwiah Ismail
(Call Centre) - Special Needs Employee
Has been with Bank Rakyat for 12 years

Disabled benefits in annual report, Bank Rakyat 2013 pg.109

Appendix.9. Summaries of the Instrumental Values Degree for Malaysia and Bahrain Affecting Disclosure

<i>Instrument</i>	<i>Values</i>	<i>Malaysia</i>	<i>Bahrain</i>
Evidence Based Disclosure (Level 3)	<i>Wider Accountability to Stakeholder Group</i>	High	Low
Phrases Disclosure (Level 1)	<i>Surface Legitimacy Lead to Symbolic Disclosure</i>	Moderate	High
Graphic Utilisation	<i>Signalling to Wider Stakeholder</i>	High	Low
Important of Religion in Life (WVS) Wave 6 (2010-2014)	<i>Religiosity</i>	High	Low
Government Effectiveness (WGI) Average 5 Years (2010-2014)	<i>Effectiveness</i>	High	Moderate
Absolute Important of Democracy (WVS) Wave 6 (2010-2014)	<i>Democracy</i>	Low	Very low
Regulatory Quality (WGI) Average 5 Years (2010-2014)	<i>Quality</i>	Moderate	Moderate
Corruption Perception Index Transparency International Average 5 Years (2010-2014)	<i>Corruption</i>	Ranked 47 out of 100	Ranked 49 out of 100
Stakeholder Theory Perspective	<i>Stakeholder Exposure</i>	Wider	Narrow
Legitimacy Theory Perspective	<i>Legitimacy Vitality</i>	Deep	Surface
Signalling Theory Perspective	<i>Signalling Coverage</i>	Strong	Weak
Accountability Theory	<i>Accountability Attitude</i>	High	Low
Social Norms Theory	<i>Social Behaviour</i>	Progressive	Conservative

Appendix.10. Heptagon Dimension



Seven Layer of Dimensions

Appendix.11. Icosagonal Themes



Appendix.12. Physical Sample of Coding Level 1-3

LEVEL 1 EXAMPLE

Narrative Phrases (Complete phrase regarding a theme)

In view of the massive floods in the eastern coast of Malaysia towards the end of 2014, the project's were relevant than ever in helping to rebuild homes when disaster strikes. This year's Housing Aid Project has become a part of the Bank's post-disaster relief initiative allocation for the East Coast post-flood rehabilitation efforts. The Bank also launched the Prihatin Programme with the purpose of providing proactive assistance to all of its flood-affected customers. Aiming to ease the financial burden of these customers during this difficult period, the programme includes several fee and charge waivers as well as a moratorium of up to six months for Bank Islam financing products' monthly instalment payments.

Figure 5.9: BIMB 2014 Annual Report pg.29

LEVEL 2 EXAMPLE

1st Spectrum= Narrative Phrases with Policy or Framework Embedded

We contribute to the Hong Leong Foundation's recycling initiative by collecting and recycling scrap paper. We have also adopted a Bring Your Own Device ("BYOD") programme to reduce the amount of paper used to print documents, while installing water-saving devices in restroom faucets and practising a strict 'lights off' policy when office areas are not in use.

Figure 5.10: Hong Leong Annual Report 2014 pg. 16

The Bank has developed a Shariah Compliance Risk Management Framework ("SCRMF") to ensure that the management of Shariah non-compliance risks in the Bank is of the highest standards in line with the SGF and IFSA.

Figure 5.11: Hong Leong 2013 Annual Report pg.166

2nd Spectrum= Narrative Phrases and Graphic (Which **Do Not** hold information-Number, Value, Figure, Indicator, Measurement, Fact)

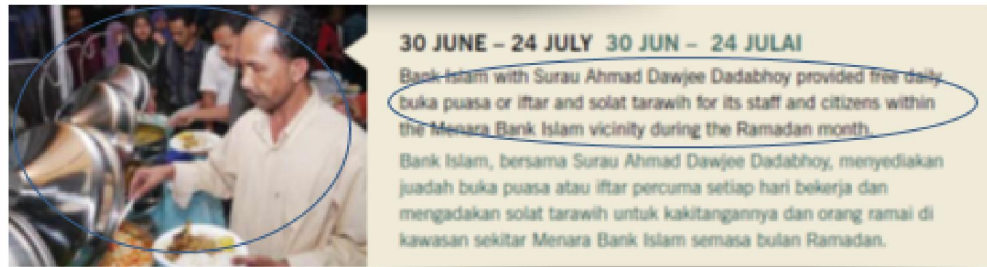


Figure 5.12: BMB 2014 Annual Report pg.123



Figure 5.13: BMMB 2014 Annual Report pg.89

3rd Spectrum= Graphic (Which Do Not hold information-Number, Value, Figure, Indicator, Measurement, Fact)



Figure 5.14: B-Rakyat 2014 Annual Report pg.121



Figure 5.15: B-Rakyat 2014 Annual Report pg.122

LEVEL 3 EXAMPLE

1st Spectrum= Narrative Phrases with statistic (Number, Value, Figure, Indicator, Measurement, Fact)

CONSERVATION PROGRAMME

As part of our commitment to the environment in helping create a sustainable future, Bank Islam looked to the ecological paradise that is Sabah in launching its "One Earth, One Quest – Mangroves, Our Priceless Treasure" campaign. By making a contribution of RM50,000 to Sabah Wetlands Conservation Society, we participated in the mangrove trees re-planting effort.

Figure 5.16: BMMB 2014 Annual Report pg.137

2nd Spectrum= Narrative Phrases with Graphic and statistic (Number, Value, Figure, Indicator, Measurement, Fact)



Figure 5.17: BMMB 2014 Annual Report pg.129

3rd Spectrum=Graphic with statistic (Which held information- Number, Value, Figure, Indicator, Measurement, Fact)



Appendix.13. Hausman Test

. hausman fixed				
	Coefficients			
	(b) fixed	(B) .	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
wgiregulat~y	.632614	.7422641	-.1096501	.0807497
bankage	.010722	.0064243	.0042977	.0031003
bodsizeall	.0042474	.0067293	-.0024819	.0013432
ssb_size	-.0031323	.0000735	-.0032058	.0032033
nedindepen~t	-.0120823	-.0101868	-.0018954	.0146687
logtotal_a~t	-.0054227	-.0046046	-.0008182	.0083184
lognet_inc~e	.0008575	.0016516	-.0007941	.0004831
roawith	-.0617389	-.0564494	-.0052895	.0169239
gdpgrowtha~1	-.2726955	-.1422394	-.1304561	.1120326
b = consistent under Ho and Ha; obtained from xtreg				
B = inconsistent under Ha, efficient under Ho; obtained from xtreg				
Test: Ho: difference in coefficients not systematic				
$\chi^2(9) = (b-B)' [(V_b-V_B)^{-1}] (b-B)$				
= 7.97				
Prob>chi2 = 0.5370				
(V_b-V_B is not positive definite)				

This mean that Random Effect is favourable compared to fixed effect estimation (Random Effect will be the estimation)

Appendix.14. Breusch and Pagan Lagrangian Multiplier test for Random Effect

```
. xttest0
```

Breusch and Pagan Lagrangian multiplier test for random effects

```
threelvllscore[id,t] = Xb + u[id] + e[id,t]
```

Estimated results:

	Var	sd = sqrt(Var)
threelv~e	.0186762	.1366609
e	.0025949	.0509398
u	.0080851	.0899171

Test: Var(u) = 0

chibar2(01) = 152.40
 Prob > chibar2 = 0.0000

This Means that
 Random effect is
 suitable for the
 estimation

Appendix.15. Main Model Estimation (Pooled-Malaysia & Bahrain)

Random-effects GLS regression

Number of obs = 170

Group variable: id

Number of groups = 34

R-sq:

within = 0.1779

between = 0.5387

overall = 0.4921

This estimation has taken into consideration of heteroscedastic & auto-correlation (The standard error is robust)

Obs per group:

min = 5

avg = 5

max = 5

corr(u_i, X) = 0 (assumed)

Wald chi2(11) = 99.23

Prob > chi2 = 0

(Std. Err. adjusted for 34 clusters in id)

SEGE Disclosure	Coef.	Robust Std. Err.	z	P>z	[95% Conf.Interval]	
Regulatory Quality	.742264	.271258	2.74	0.006	.210609	1.273919
Religiosity	.267507	.082295	3.25	0.001	.1062121	.4288014
Listed	.096629	.040221	2.4	0.016	.0177968	.1754619
Bank Age	.006424	.001157	5.56	0.000	.0041577	.0086909
BOD Size	.006729	.005386	1.25	0.212	-.0038271	.0172857
SSB Size	.0000735	.004758	0.02	0.988	-.0092527	.0093996
NED	-.01019	.023954	-0.43	0.671	-.0571354	.0367618
Size(Ln Total Asset)	-0.0046	.006813	-0.68	0.499	-.017958	.0087489
Profitability (ln Net income)	.001652	.002056	0.80	0.422	-.0023776	.0056808
ROA	-.05645	.058216	-0.97	0.332	-.1705504	.0576516
GDP(GDP Growth Rate)	-.14224	.577582	-0.25	0.805	-1.274279	.9898006
_cons	-.43072	.214994	-2.00	0.045	-.8521013	-.0093424
sigma_u	0.089917					
sigma_e	0.05094					
rho	0.757034	(fraction of variance due to u _i)				

SEGE : Shariah , Social , Environmental , Governance & Ethics Score

This table reports the main model random effect estimation. **SEGE Score**: The score derived from the quality disclosure score of the annual report. **Regulatory Quality**: The score gathered from the world governance indicator. **Religiosity**: The data gathered from the world values survey based on the percentage of respondents indicating that religion is important to them. **Listed**: Dummy variable taking a value of 1 if the bank is listed on the stock exchange of the respective country and 0 otherwise. **Bank Age**: The bank's age since its foundation. **BOD size**: Number of board members. **SSB size**: Number of shariah supervisory board members. **NED**: Percentage of non-executive directors inside the board. **Size**: natural logarithm of total assets. **Profitability**: Natural logarithm of net income. **ROA**: Ratio of earnings before interest and tax divided by total assets. **GDP**: Growth rate of the gross domestic product of a country as a proxy for macroeconomic factors. Standard error is robust and adjusted for 34 clusters in ID.

Appendix.16. High Religious Country

Random-effects GLS regression

Group variable: id

Number of obs = 170

Number of groups = 34

R-sq:

within = 0.1779

between = 0.5387

overall = 0.4921

Obs per group:

min = 5

avg = 5

max = 5

corr(u_i, X) = 0 (assumed)

Wald chi2(11) = 99.23

Prob > chi2 = 0

(Std. Err. adjusted for 34 clusters in id)

SEGE Disclosure	Coef.	Robust Std. Err.	z	P>z	[95% Conf.Interval]	
High Religious Country	.118238	.0363743	3.25	0.001	.0469457	.1895302
Regulatory Quality	.7422641	.2712575	2.74	0.006	.2106093	1.273919
Listed	.0966293	.0402214	2.40	0.016	.0177968	.1754619
Bank Age	.0064243	.0011565	5.56	0.000	.0041577	.0086909
BOD Size	.0067293	.005386	1.25	0.212	-.0038271	.0172857
SSB Size	.0000735	.0047583	0.02	0.988	-.0092527	.0093996
NED	-.01019	.023954	-0.43	0.671	-.0571354	.0367618
Size(Ln Total Asset)	-0.0046	.006813	-0.68	0.499	-.017958	.0087489
Profitability (ln Net income)	.001652	.002056	0.80	0.422	-.0023776	.0056808
ROA	-.05645	.058216	-0.97	0.332	-.1705504	.0576516
GDP(GDP Growth Rate)	-.14224	.577582	-0.25	0.805	-1.274279	.9898006
_cons	.3221141	.2223325	-1.45	0.147	-.7578777	.1136495
sigma_u	0.0899171					
sigma_e	0.05093983					
rho	0.75703389	(fraction of variance due to u_i)				

SEGE : Shariah , Social , Environmental , Governance & Ethics Score

This table reports the differential statistical model random effect estimation. **SEGE Score:** The score derived from the quality disclosure score of the annual report. **Regulatory Quality:** The score gathered from the world governance indicator. **High Religious Country:** Value of 1 for highly religious countries and 0 for less religious countries. **Listed:** Dummy variable taking a value of 1 if the bank is listed on the stock exchange of the respective country and 0 otherwise. **Bank Age:** The bank's age since its foundation. **BOD size:** Number of board members. **SSB size:** Number of shariah supervisory board members. **NED:** Percentage of non-executive directors inside the board. **Size:** Natural logarithm of the total assets. **Profitability:** Natural logarithm of the net income. **ROA:** Ratio of earnings before interest and tax divided by total assets. **GDP:** Growth rate of the gross domestic product of a country as a proxy for macroeconomic factors. Standard error is robust and adjusted for 34 clusters in ID.

Appendix.17. Interactive Regulatory Quality

Random-effects GLS regression

Group variable: id

Number of obs = 170

Number of groups = 34

R-sq:

within = 0.1803

between = 0.5399

overall = 0.4934

Obs per group:

min = 5

avg = 5.0

max = 5

corr(u_i, X) = 0 (assumed)

Wald chi2(11) = 100.11

Prob > chi2 = 0.0000

(Std. Err. adjusted for 34 clusters in id)

SEGE Disclosure	Coef.	Robust Std. Err.	z	P>z	[95% Conf.Interval]	
Regulatory Quality	.6093331	.2902896	2.10	0.036	.0403759	1.17829
Interact_Reg_Quality	.1664968	.0497431	3.35	0.001	.0690022	.2639915
Listed	.0986872	.0402034	2.45	0.014	.01989	.1774844
Bank Age	.0063443	.0011157	5.69	0.000	.0041576	.008531
BOD Size	.0067965	.0053607	1.27	0.205	-.0037103	.0173033
SSB Size	.0005571	.0047171	-0.12	0.906	-.0098024	.0086882
NED	.0110447	.0238039	-0.46	0.643	-.0576995	.0356101
Size(Ln Total Asset)	-.0044784	.0068344	-0.66	0.512	-.0178735	.0089168
Profitability (ln Net income)	.0016469	.0020434	0.81	0.420	-.0023582	.0056519
ROA	-.0599767	.0583766	-1.03	0.304	-.1743929	.0544394
GDP(GDP Growth Rate)	-.2366069	.5901074	-0.40	0.688	-1.393196	.9199822
_cons	-.2192581	.2341829	-0.94	0.349	-.6782481	.239732
sigma_u	.08989619					
sigma_e	.05112401					
rho	.75561788	(fraction of variance due to u _i)				

SEGE : Shariah , Social , Environmental , Governance & Ethics Score

This table reports the differential statistical model random effect estimation. **SEGE Score**: The score derived from the quality disclosure score of the annual report. **Regulatory Quality**: The score gathered from the world governance indicator. **Interactive regulatory Quality**: Country value times regulatory quality score. **Listed**: Dummy variable taking the value of 1 if the bank is listed on the stock exchange of the respective country and 0 otherwise. **Bank Age**: The bank's age since its foundation. **BOD size**: Number of board members. **SSB size**: Number of shariah supervisory board members. **NED**: Percentage of non-executive directors inside the board. **Size**: Natural logarithm of total assets. **Profitability**: Natural logarithm of the net income. **ROA**: Ratio of earnings before interest and tax divided by total assets. **GDP**: growth rate of the gross domestic product of country as a proxy for macroeconomic factors. Standard error is robust and adjusted for 34 clusters in ID.